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# **Chinese Companies Cross-Border Mergers and Acquisitions Performance: Evidence from Inward and Outward Deals**

*A thesis presented for the degree of  
Doctor of Philosophy*

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Supervised by:

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April 2018

## **Abstract**

This dissertation focuses on the Chinese cross-border M&As (mergers and acquisitions) market of public companies' performance. The study precisely identifies short-term performance surrounding a M&A announcement that a public Chinese company is acquiring an overseas firm or is being targeted. The key words of these three chapters are method of payment, public status, and acquirer industry.

This study measures short-term performance by investigating CARs (cumulative average abnormal returns). The windows are approximately 2 days and 5 days before and after a M&A announcement. The time span is 15 years (2002–2016) for Chinese public companies' cross-border transactions and 23 years (1994-2016) for transactions targeting Chinese public companies. The first chapter demonstrates that cash transactions outperform stock transactions although more public Chinese companies chose stock to finance transactions. The second chapter demonstrates that an acquired public overseas target underperforms compared with targeting private companies. In addition, the transaction volume indicates that most bidder companies made the right decision. The third chapter demonstrates that overseas financial institutions are more likely (over 60% of transactions) to acquire Chinese public companies in all industries. These investors do bring abnormal returns to their target companies.

## **Executive Summary**

This dissertation advises cross-border corporations and institutions on complex strategic and financial needs in Chinese stock markets and around the world. Whatever the challenge or opportunity, this dissertation provides a complete cross-border M&A offering to address transaction needs. Drawing upon data, methodology and regional market insight, this study may evaluate any business with a long-term view to providing comprehensive and integrated solutions to cross-border M&A needs.

There are statistical summaries of all transactions. The scale and breadth of data with regression tests suggest a different approach and observation. This study has successfully examined all of the significant existing literature with regard to the primary issues and theories pertaining to the history of the Chinese market; a deep understanding and broad knowledge bring experience to future activities. This dissertation advises that only private market information is limited, and the interests considered are fully aligned with investors and shareholders. To benefit from cross-border M&A transactions validates the results of this dissertation. Therefore, this dissertation endeavours to provide specialized advice, swift strategic execution and robust resources to help companies seize opportunities and solve problems. The paper addresses strategic expansion and enhancing business value.

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## **Declaration**

No part of this thesis has been submitted elsewhere for any other degree or qualification in this or any other university. It is all my own work unless referenced to the contrary in the text.

## **Statement of Copyright**

The Copyright of this thesis rests with the author. No quotation from it should be published without the author's prior written consent and information derived from it should be acknowledged.



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I am in charge of offshore investments for China Life Insurance Companies, Ltd. When I started in 2013, CIRC (China Insurance Regulatory Commission) had only recently allowed Chinese insurance companies to invest in offshore markets. The

workload became overwhelming, leaving little time for research. Michael helped me stay on track. My boss and work colleagues also understood my situation and offered me a reasonable workload and research flexibility. Fortunately, my working language was English 60% of the time. Working as a financial institutional investor enabled me to meet hundreds of the best investors in the world. In more than 200 meetings a year, I learned the best investment philosophies and practices through my work. I often answered my own questions and generated ideas in my work. Therefore, I thank all of the people I met during those years.

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*To my beloved parents*

*&*

*To the encouragement of working colleagues*

# **1. Chapter I: Introduction and Background**

## **1.1 Introduction**

In the past two decades, Chinese companies have become the major buyers in the global M&As market. Many transactions were large or remarkable. In this thesis, the author focuses on the cross-border transactions conducted by Chinese public companies. The analysis collected stock price data for 2 and 5 days before and after the M&A announcement date. Short-term performance was measured by CARs (cumulative average abnormal returns). Brown and Warner (1985) tested daily stock returns and how the particular characteristics of the data affect event study performance. The primary research of cross-border M&As was produced by scholars such as Bertrand and Betschinger (2011), Boateng and Wang (2008), Chen and Young (2009), Chen and Wang (2012), Coeurdacier et al. (2009), Dension et al. (2011), Datta and Puia (1995), Dos Santos et al. (2008), Dutta et al. (2013), Li (2010), Moeller and Schlingemann (2005), Ryu and Lee (2009), Shimizu et al. (2004), Tang (2015), Tao (2017), Uddin and Boateng (2011) and Zhang and van Gorp (2017).

The thesis is divided into three chapters; the first two chapters focus on the Chinese companies' cross-border M&As as the acquirers. The third chapter analyses the short-term performance of the target firm when Chinese public companies became the

cross-border M&A targets. The selected samples contain all M&A transactions<sup>1</sup> (whether completed or not) involving Chinese public companies as bidders from the years 2002 to 2016 and all M&A transactions (complete or incomplete) involving Chinese public companies as targets from the years 1994 to 2016. In Chapter II, the primary control variable is method of payment in M&A transactions. The two primary groups are cash and stock payment. In Chapter III, the primary control variable is the public status of the M&A target. The two main types of targets are public and private. In Chapter IV, the primary control variable is the industry of the M&A acquirer. The two main groups of acquirers are financial companies and non-financial companies.

### **1.1.1 Motivations**

This thesis contains the M&A transactions from both the bidder and target sides in which Chinese public companies were involved. Public companies were selected because information and data are easier to access. Gort (1969) posited that mergers and acquisitions are caused by evaluation differences among market competitors, activated by economic changes such as technological changes, industry restructure, improvements in the regulatory environment. The Chinese opening-up policy developed rapidly after 2001, encouraged by several supportive policies. SAFE (State Administration of Foreign Exchange) issued ‘Regulations of Domestic Institutions Overseas Direct Investment on Foreign Exchange’ in 2009, and the Ministry of

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<sup>1</sup> Data Source: Thomason One Banker transactions (SDC) and GTA (CSMAR) database

Commerce issued ‘Offshore Investment Management Approach’ in 2014. These regulations guided Chinese institutions to invest in overseas markets in a regulated manner. These supportive policies offered guidelines for both FDI (foreign direct investment) and for attracting investments from foreign markets.

Numerous remarkable transactions were completed by Chinese buyers in the global M&A market. Many issues remain that may prevent a successful transaction, such as synergy problems, culture, law issues, and the tax structure. Chinese buyers remain in the beginning stage. This thesis does not examine operations or management issues although the author attempts to provide some academic support for the transaction stage. The result would be applicable for selecting an appropriate target and form of trade. In addition, these results are applicable to how an investor may accrue benefits for its shareholders when a company becomes a takeover target.

Cross-border M&As in China increased in the 21<sup>st</sup> century and became more active after the financial crisis of 2007, only 10 years ago. Many basic models and theories in the M&As market began development in the past century. When China became the second largest economy in the world, the structure of the market changed, and China began participating more often in global affairs. Data on research and testing in the U.S. and other developed markets are quite adequate; however, there is little access to research data in China. This thesis will partially fill the gap in this area.

### **1.1.2 Contributions**

This thesis may contribute to the M&A literature in several respects. First, the literature on method of payment is scant and has not been adequately updated in recent years. Business activities may have changed because of different investor structures, fiscal and monetary economic policies, cultures, market size, etc. Therefore, updates in this special market are necessary. The majority of Chinese buyers financed their transactions with stock payment although the results indicated that those transactions underperformed compared with cash transactions. This thesis chose Chinese public companies as a starting point from which to evaluate cross-border performance.

Second, Chinese companies joined the M&As market only recently. Successful transactions are limited, and many transactions were uncompleted. However, Chinese companies are fast learners, and the teams are more professional than they were 10 years ago. A better understanding of markets, culture, management, laws and taxes have spurred the completion of more transactions. During the past two years, several remarkable transactions occurred in Germany and Japan. This thesis provides better academic support for those activities. The results will also serve as a guide to investors and future researchers.

Third, this thesis chose the unique data set of Chinese public companies' cross-border

M&As. These transactions represent half of the cross-border transactions in China, and the time period basically covered all transactions since the Chinese stock exchange was established. The majority of bidder companies in China acquired overseas private firms as the previous literature suggested. This is a good situation for Chinese investors. This thesis specifically attempts to explain the regional differences in North America, Pan-Europe, Asia-Pacific and the rest of the world and other factors that may affect performance in the short term.

Fourth, the Ministry of Commerce of the People's Republic of China monitors all overseas direct investment, including cross-border M&As. The author expects this study to have some influence on Chinese bidder companies, enabling them to choose better targets. In addition, the regional research in this thesis may help Chinese regulators create better guidelines for approving investable projects and reducing losses in risky markets. This thesis groups the markets as North America, Pan-Europe, Asia-Pacific and the rest of the world and includes 12 major industries. Future research on regional and industrial factors may be based on this thesis.

Fifth, the literature on financial institutional investors is quite limited. In this thesis, the author realized that more than 60% of transactions are made by overseas financial investors. Because of the ownership structures of these bidders, only limited information is obtainable from bidder prospects. The author chose to begin with public Chinese targets, a unique angle for cross-border M&A research. Regional and



industrial research is included in this thesis. Therefore, the results may provide guidance to overseas investors when they consider acquiring a Chinese target.

Sixth, the thesis introduces China's M&As market environment, regulations, and data statistics for historical transactions. China's opening-up policies sought to attract offshore corporations to invest in China although the investigation is difficult. A better understanding of China's market and policies involves helping transactions to completion and supporting the shareholders of Chinese companies to identify overseas buyers and financial investors. To become an overseas buyer's target is a sort of reward for a business and its operations. Of course, hostile takeovers are not welcome; however, financial or strategic investors should be encouraged by Chinese companies. To optimize ownership structure and to improve management or financial support are benefits for shareholders. This thesis attempts to provide academic support to this field.

## **1.2 Background**

Mergers and acquisitions are corporate activities. Merger means one new corporation that is created by combining two or more independent firms. It also refers to a firm that has comparative advantage enabling it to engage one or more firms in an authorized alliance. Acquisition represents acquiring the ownership of one firm by another firm using stocks, or cash or a combination of all three to obtain control of the

acquired firm. Different from mergers, acquisitions often occur in situations in which a larger institution takes over a small counterpart (Copeland and Weston, 1988).

Cross-border mergers and acquisitions refer to a country's endeavours to acquire partial or full control of a foreign enterprise for some purpose by certain channels and methods of payment. Acquiring an existing foreign company allows the acquirer access to the related resources, which include the economics of scales, advanced technologies, and government policies as well as access to the new market in that country (Shimizu et al., 2004).

According to the definition of the United Nations Conference on Trade and Development (UNCAD), there are three major forms of cross-border M&As. Firstly, the horizontal M&As occur in two or more different nations in the same sector or industry with economical market relations. The core objective is to develop synergy by integrating the appropriate resources to enlarge market shares and develop growth in the international competitiveness of the company to achieve higher monopoly profits. Because the two sides of an industry in an acquisition have the same background, cross-border M&As represent approximately 70% of horizontal cross-border mergers and acquisitions. These mergers are more likely to occur in the pharmaceutical, automotive, petroleum and financial services industries. Second, vertical M&As occur in two or more nations with different firms that has a relation such as customers and suppliers. The vertical M&As has two approach, forward

integration and backward integration. The core objective is to lessen production chain uncertainties and operation costs and to benefit from the economy of scales. Third, the conglomerate M&As occur between two or more nations in different industries or sectors. The core objective is to become a globally diversified company to reduce the risk in a single market and to obtain capital appreciation (Mirvis and Marks, 1992).

The overall M&As market indicated elasticity in the past few years, the trade volume reach to of \$3.9 trillion in 2016, it is the third best year in recent decades. The challenges in the market included the more withdrawn transactions since 2008, and there is approximately 18% year-over-year drop in USD volumes. The dropping was affected by the approximately 39% fall in mega transactions of over \$10 billion, and transactions larger than \$250 million declined by 6% year-over-year. Nevertheless, 2016 was an exciting year for M&As: the transaction volumes and transaction count suffered among considerable global uncertainties, including intensified regulatory inspection and geopolitical vicissitudes, speculation about Brexit. Nevertheless, with these stresses above, the market still continued active and encouraging for deal-making in next coming years, especially when the uncertainties decline.

Regardless of the potential challenges, optimistic fundamentals supported in recent years, enterprises pursued growth with cross-border M&As to entre different counties, services, products and techniques which benefits from the sustained lower cost of capital raising. Bidders in the worldwide leveraged strategical acquisitions to enlarge

both geographic scope and innovation capability, for example anticipated deals that contained within Qualcomm acquiring NXP Semiconductors, ChemChina acquiring Syngenta, and London Stock Exchange merger with Deutsche Boerse Group, and AT&T acquiring Time Warner.

The cross-border M&As also remain a significant characteristics of the market, statistical indicating 36% of the entire deals, contrasted with 31% in historical records. A wave of outbound Chinese transaction contributes to general cross-border M&As development, as Chinese enterprises pursued opportunity overseas. Chinese cross-border M&A activities in EMEA and the U.S. have enlarged by 252% and 471% separately. Furthermore, market response to announcements of substantial deals, that bidders have showed positive response in their stock price movement.

There is a broad consensus that China is a developing country that benefitted from the environment of globalization because of a remarkable GDP growth rate and a high employment rate. China has quickly developed into one of largest economic entities in the world and may exceed the U.S. in the next decade. Previous studies demonstrated that China's GDP was 64% of the U.S.'s in 2014, and the IMF predicts China's reaching a GDP growth of approximately 7% whereas the U.S. growth would be approximately 2.9%.

China is the second largest economic entity specializing in manufacturing and

industrial products and because of the reformed economic strategy, the more diverse services and products are exported because of increased worldwide demands. However, resources and technology are limited domestically. M&As have become the vital corporate activity to reallocate the use of capital and resources. In 2016, China announced the 13th Five-Year Plan (2016-2020), which focused on infrastructure, consumption, service industries, etc. The plan requires massive amounts of labour, capital, resources, and technology, and Chinese companies normally have plenty of cash flow and low borrowing costs. This has become the driver of investment booming and is why M&As have increased in recent decades (Jiang et al., 2011).

Previous studies included various perspectives of M&As. This research focuses primarily on Chinese listed company cross-border M&As to construct the factors affecting stock price volatility in the Chinese stock market. This study includes various points of view from previous research regarding M&As based on different theories. According to the various perspectives, the factors in stock price volatility for Chinese listed companies include transaction size, leverage ratio, methods of payment, etc. This study also notes that there is a correlation among the type of target, the region of the target and the sector of the target, all of which affect the performance of M&As. And the final question focuses on what may occur when Chinese firms are acquired by foreign companies.

### **1.2.1 Merger Waves**

Andrade et al. (2001) investigated M&A transaction in the U.S. and concluded that M&A activities occur in several waves. A variation in the structure of sector raises the scale of M&As. Those authors proposed that deregulation is an influence that considerably influenced the volume and duration of M&As transaction in 1990s. They assumed that the merger waves are not all identical. To compare the scale of M&As in different industries in every decade from 1970s to 1990s, these authors observed which the primary industries do not intersect.

However, Shleifer and Vishny (2003) claimed that shocks cannot fully justify merger waves. They stated that waves are based on the behaviour of investors and misevaluated hypotheses, and M&A transactions are affected by equity market valuation. Those authors expected that investment managers are sensible and that overrated companies takeover companies which are underrated. It means that acquirers may distribute fewer stocks to buy a target firm. Bouwman et al. (2008) stated that there are driving activities in merger waves. These scholars noted that if the M&As are promised during the later periods of merger waves, the acquisition tends to create a poorer performance for the bidder firm.

M&As were not common between 1993 and 1999 in the Chinese market. The initial mergers wave should be supposed to begin in this century when the volume of deals

seemed to double. And the motive may be explained by the globalization strategy when the Chinese government made efforts to encourage overseas investments activities. (Black et al., 2013) The most significantly, Chinese policies began to support SOEs to acquire overseas mining and energy assets. The volume of M&As nearly 100% growth in the year of 2002 and sustained that growth in 2003 and 2004. Nevertheless, the value of transactions in 2003 and 2004 did not appreciate significantly higher than the value in 2002. In 2007, the volume and volume of deals enlarged considerably. Nevertheless, the trend did not continue after the global financial crisis from 2007 to 2009. In 2010, this trend appeared to recur because M&As became quite active, primarily because of the growth of M&As in energy, real estate and the mining industry. Chinese central bank was tightening the monetary policies that led to the fiscal stresses in the real estate sector in 2010. Numerous firms were forced to provide additional investment, pushing these firms to convert takeover target. Moreover, the SOEs funded huge deals in the mining and energy sectors. It causes many M&As into those sectors (Gu et al., 2010).

The following wave is currently in process, encompassing not only the transactions in industrial sectors but also in the technology and service industries. In the first well-known case, Lenovo declared the acquiring activity of the IBM (personal computers) and the Motorola mobile from Google, for 5 billion USD in 2014 (Bloomberg Briefs, 2014). China's technology enterprise start to seek foreign merger opportunities; for instance, Tencent acquires Activision Blizzard, Inc., and also

participate in a Korean message service company, Kakao Corp.

### **1.3 Market Overview**

According to Ding et al. (2010), the primary Chinese motivation for an investment is the return on the investment, demonstrating considerable growth in the volume of M&As. Investors seek a positive relation between bidders' return and M&As. Typical economic theory provides various motives for why M&As arise, for example, economies of scale, the lower cost of capital, and synergy (Andrade et al., 2001). Other motives are diversification; the hubris hypothesis, which suggests that overconfidence, leads to mispricing the target; market power; and tax reasons (DePamphilis, 2010). Moreover, M&As can be a strategic activity, such as the concept of 'too big to fail'; a firm grows so large that its failure may generate more issues, for example capital markets volatility. Consequently, governmental institutions must interfere to avoid the corporation's bankruptcy.

This thesis contributes to some prospects. First, it could be important to refresh the current research regarding China, the world's largest emerging economy; it is important to dig deeply to understand the consequences of China's listed company activities, the M&As. This paper explores whether M&A decisions are leading to positive investment. Second, this paper examines whether different forms of transactions create effects on bidder returns, in particular, whether the types of firms



that Chinese firms tend to target generate greater bidder returns. This examination requires comparing public and private targets. Finally, this paper investigates, when Chinese listed firms became targets, whether the bidder firm was a financial firm and able to obtain abnormal returns from the transactions.

Between 2007 and 2012, the growth rate in China in average was approximately 10% annually. The quality, quantity and valuation of assets were escalating in China. This rate compares favourably with the U.S. and core European developed markets that grew in a poorer level, up to 2% maximum. China's market has become the world's largest manufacturing and exporting market and holding \$1.3 trillion in U.S. treasury notes (Global Research, 2012).

China's market has great trade surpluses that are able to lead to huge volumes of free cash flows for enterprises. The free cash flow theory proposes that M&As damage rather than increase value for shareholders. Because of the theory of agent problem, a firm's managers tend to raise the influence by growing the firm instead of paying large dividend to its shareholder (Jensen, 1986). This expansion generates further benefits and opportunities to managers although the company does not take advantage from mergers and acquisitions.

Previous studies suggested some concepts to clarify why M&As arise but also why M&As is not able to generate benefit to the acquiring firms.

There are 2 key motives in M&As are financial synergy and operating synergy. Synergies are the collaboration between 2 separate corporations to create greater value than if they worked separately or competed with one another. Operating synergy occurs when there is economy of scale. This is a cost advantage because of the growth in effectiveness by distributing fixed costs over a better level of productions. Though, economy of scales regularly has limitations. When the limits are reached, the cost begins to increase again, for example, losing control of the firm or coordination of internal or external issues when the firm becomes too enormous. Hence, if companies are involved in too many acquisition transactions, efficiency is affected and cost growth. Financial synergy arises if the costs of capital decline. The target firm generates better reputation, since M&As is expected to create a larger growth rate and reduce the level of risk. M&As might lead to fewer borrowing costs (DePamphilis, 2010).

An additional concept is empire-building, horizontal acquisitions that rise markets power, which allows firms to obtain the power of an oligopoly or monopoly monitoring pricing and level of productivity. Moreover, R&D are anticipated to develop because of more expertise and more power for research and development. If the acquirer and target belong to different industries, M&As are likely to generate negative effects on R&D. Or expertise and products or services may be too similar, which damages the net present value of the transaction because the assets would have

to be accounted for twice in the same area for both the acquiring and target firms (Cassiman and Colombo, 2006).

### **1.3.1 Evidence of the U.S. and the U.K.**

As stated above, M&As create financial return, for example, enhanced efficiency, greater revenue, more clients and tax benefits. These are long-term predictable benefits that must increase the valuation of shares for both the bidders and the targets. The majority of empirical research investigates the abnormal return for bidders and targets announcement periods, and the majority focus on the factors that influence returns, for example the methods of payment, public status and size. The empirical outcomes of present research may be uncertain; however, all studies reach similar conclusions, that the target firm will be the evident winner in the transaction. The short-term abnormal return may range from 0% to 30%. Conversely, the bidder firm normally experiences a negative return.

Firth (1980) stated that U.K. M&As did not generate monopolistic power, synergy or even improve the management target. Firth selected data between 1969 and 1975 in the U.K. to analyse whether M&As maximized the interests of shareholders. The U.K. bidders tended to destroy value by M&As, and these losses continued for many years. Nevertheless, because acquisitions may be beneficial to the management, it appears that the manager would be maximizing its own interests not the interests of

shareholder. Firth noted that the U.K. outcomes were quite different from outcomes in the U.S. The U.S. bidders only obtained no abnormal profit in the worst situations. Asquith et al. (1983) selected a similar time of period to Firth's, and they observed substantial growth in the assets of shareholders for the U.S. bidder firms. They observed that if there are several targets of the same merger transaction, the mergers are considered one transaction rather than several independent transactions. Therefore, they gained the data by scanning acquirer company rather than targets.

Chang (1998) concentrated on how methods of payment affect acquirer return on private transactions. He selected mega transactions between 1981 and 1992 in which the value of the transaction was greater than \$10 million and demonstrated that bidders would obtain a positive return for stock payment and none return for cash payment. However, cash payment is much more usual than stock payment in different markets. Fuller et al. (2002) selected the sample of acquirers involved in multiple M&As between 1990 and 2000 in the U.S. Those authors observed that bidders obtain a positive return with both methods of payment although stock payment tends to generate faintly better returns in private acquisition transactions. Conversely, acquirers experienced a bad return for stock payment and obtain a good but insignificant return for cash payment in public acquisition transactions. Moreover, Fuller et al. (2002) examined how the size of targets comparative to acquirers affected acquirer returns. These researchers detected that return is better for cash payment and worse for stock payment when the size of the targets is enlarged.

Moeller et al. (2004) agreed that abnormal return on the transactions of small firms is considerably higher than for large firms. They noted that big deals would lead to valuation damage whatever which methods of payment is adopted. Guo and Petmezas (2012) expanded the study by selecting the U.K. sample. They determined that firms that made smaller transactions tended to create more value than if they had engaged in larger transactions. This is because lower costs render a small target more obtainable than a larger target. They determined those acquirers who have suffered losses are more tends to generate better return because they have learnt from their previous errors.

Bouwman et al. (2008) determined return changes if the state of the economy different. They attempted to study whether M&As involved in a market with good valuations, which is considerably different from a market with low valuation (to use the price-to-earnings ratio to measure the value of stocks). They observed the short-term return of acquirer during a boom period outperformed a recession period. Nevertheless, the long-term return of a bidder is higher for a transaction that occurs during a recession. They also observed that cash payment generated a greater long-term return than stock payment. Croci et al. (2010) observed bidders' return in markets with different level of valuations. They find a good abnormal return for the bidder firm, and their results were same with Bouwman et al. (2008).

### **1.3.2 Evidence of China**

Although many studies concentrated on Chinese government policy regarding M&As (Zhang and Zhang, 2010 and Sokol, 2013), only a few empirical studies focused on bidders' return on Chinese cross-border M&As. Previous research examined how the Anti-Monopoly Law in China (released 1 August 2008) affected China's mergers. Those studies observed that there was little disclosed information with which to process further research. Sokol (2013) also stated that transactions must be permitted by the interagency approval of various government departments as well as the Ministry of Commerce and that cross-border transactions must be approved by the State Administration of Foreign Exchange (SAFE). These agencies do not consider the economic interests of individual privately-owned enterprises (POEs) when assessing the merger. Thus, the process appears to be closer to political guidelines that would benefit Chinese State-Owned Enterprises (SOEs). Zhou et al. (2012) also observed that M&As in SOEs have become a tool for the governmental institutions to realize their economic and political strategies in China.

Jiang et al. (2011) detected distinctive characters of Chinese M&As activities are that majority of China's companies are SOEs. They are directly or indirectly owned or controlled by the government. And many POEs or non-SOEs were affiliated with SOEs or SOE subsidiaries. Moreover, Zhou et al. (2012) stated that SOEs tend to seek political connection than POEs, which could affect performance of transactions. This

feature changed the decisions of firm management. Hence, data from the U.S. and U.K. could not work in China. Zhou et al. (2012) hold opinion that the financial support is primarily offered by state-owned banks: SOEs will hold the advantage of having bank loans. Because M&As require huge amounts of financing, SOEs are privileged and certainly benefit from the arrangement. It is no surprise that SOEs outbid POEs over the long-term.

Black et al. (2013) studied acquirer returns for cross-border and domestic M&As in China. These researchers observed domestic bidders obtained better abnormal returns and that stock payment created a surprising 6.24% abnormal return, which differed from the evidence in the U.S. and U.K. Cross-border M&As, conversely, performed poorly and obtained a negative return. Nevertheless, the results indicated that long-term acquirer return was worse for cash and the mixture of cash and stocks payment but positive for stocks payment in domestic M&As. These findings are not consistent with research on U.S. and U.K. transactions.

## **2. Chapter II: Chinese Company Cross-Border Takeovers**

### **2.1 Introduction**

This chapter investigates a Chinese listed company acquiring an overseas company. The control variables are the different methods of payment. In the Chinese M&A market, more companies elected to pay with stock than with cash.

In a previous study, Moeller et al. (2007) tested different variables' effects using an information asymmetry model and diversity-of-opinion model to support the use of the cross-sectional variation in acquirer announcement returns. Those authors selected a sample of private and public firm transactions that included pure cash offer and pure stock offer between 1980 and 2002. They selected different variables and uncertainty proxies. Their research verified and tested the significance of a part of the cross-sectional variance during acquirer announcement and return. The authors tested the correlations between the theoretical prediction of information asymmetry and diversity-of-opinion and acquirers return. According to theory, bidder abnormal return is negatively related to information asymmetry and diversity-of-opinion proxies for stock offer but not for cash offer. The observation shows the case that is more outstandingly. It is not different in abnormal return between cash offer for public companies, equity offer for public companies, and stock offer for private companies



when monitoring for one of these factors, idiosyncratic volatility. Fuller et al. (2002) and Chang (1998) determined that acquisition of private company financed with stock has better abnormal return than private deal financed with cash.

In Chapters II and III, this dissertation investigates the method of payment and target ownership structure as previous research did; however, the evidence is from China, and the time period and data size are basically Chinese M&A history. The motivation to choose the Chinese M&As market is obvious: Chinese companies are becoming more active in seeking acquisition opportunities, and there have been increasingly more remarkable cases in recent decades.

Clearly, the Chinese economy has been more active in the 21<sup>st</sup> century, and the global economy has become more volatile, for example, tech bubbles and the financial crisis. The Chinese economy has seen dramatic growth from the beginning of the 21<sup>st</sup> century, and Chinese companies began to seek cross-border takeover opportunities.

Previous studies presented the correlations between the financial crisis and cross-border M&As because researchers were able to obtain long-term historical data. The 2008 financial crisis was already a classic case in Lybeck (2011), who highlighted the features of the 2008 financial crisis to compare it with previous crises. Lybeck explained why the crisis occurred and how it affected the global economy. Many studies investigated the outcomes of cross-border M&As, such as the

perspective of implications (Bruner, 2004, and Morck and Yeung, 1991), the evaluation of performance (Seldon and Colvin, 2003), and time frame research (Steiner, 1975 and Weston, 1953). The outcomes of M&A research are fairly broad; however, it remains necessary to explore the cross-border M&A deals during market volatilities. China's cross-border M&A activities also became more active since the financial crisis.

Motivated by the above-mentioned facts and issues, this chapter examines short-term performance analysis. The dependent variables are the CARs  $[-2, 2]$  and CARs  $[-5, 5]$  of a Chinese public bidding company. The key explanatory variable is the method of payment; some of the sample were financed with cash, and the rest were financed without any cash. In the sample, of the number of transactions (465), only 37% of transactions were financed with cash; 63% of the transactions were financed with no cash. This study proposes to determine the difference in the performance of cross-border M&As of Chinese listed companies. This analysis follows numerous theories to provide a deeper understanding of this research area and to explore the concept from different perspectives. Resource-based theory is applied to an economic instrument to decide the obtainable strategy resource for firms. Tobin's Q theory could be defined as a monetary theory developed by Tobin in 1969 and applied for testing the market value performance. The helping-hand and grabbing-hand theories were presented by Vishny and Shleifer (1994) and argue that the government is acting important roles in the market.

This research adds to the M&A literatures in some respects. Firstly, previous literature on method of payment is scant, and few updates have occurred in recent years. In the past fifteen years, China has become the second largest economy. China remains a developing country, and the financial market remains an emerging market. All business activities are affected by different investor structures, economic policies including fiscal and monetary policies, cultures, market size, etc. Therefore, to update this special market is necessary.

Second, the majority of Chinese buyers finance their transactions with stock payment although the results indicated that those transactions underperformed cash transactions. This thesis selected public Chinese companies as a starting point to evaluate their cross-border performance in different regions. The market groups are North America, Pan-Europe, Asia-Pacific and the rest of the world. The results may guide investors and future research.

Third, Chinese companies have been in the M&A market for only a short time. The number of successful transactions is limited, and many transactions were uncompleted. However, Chinese companies are fast learners; the teams are more professional than they were 10 years ago, and a better understanding of the market, culture, management, laws and taxes helped to improve transaction completion. In the past two years, there were several remarkable transactions in Germany and Japan. This

thesis provides increased academic support for those activities.

### **2.1.1 Market Background of China**

The cross-border M&A has become the significant activity in the international financial market. At present, China is the world's largest emerging economy in business, international trade, finance, etc. The listed companies have dominated the China financial market. Hence, the research on the return performances of China's listed firms in cross-border M&As has become a significant topic in the global financial markets.

M&A transactions emerged in the U.S. in the 1990s, which saw a wave of M&As. M&As result in concentrated wealth, resource reallocation, reorganized corporate structure and upgraded industry structure. Thus, the results of M&As may be positive or negative. Sievers et al. (2014) provided evidence that the results are good in the year of general economic growth. For instance, in first half of year 2014, the volume of international M&As activities was approximately 7500, and the transaction value was up to \$130.4 billion. Simultaneously, risks remained, and the political events between countries were problematic. The conflicts between political systems in the Middle East and Ukraine had negative effects on the market and caused volatility.

Property rights were established in China in 1984. The China Shanghai Stock

Exchange was established in the 1990s. Thus, stock prices can be tracked for M&As. The first cross-border M&A occurred in 1992. In the late 1990s, the incentive of M&As was accelerating because China was going to join the WTO. This also generated multiple levels of scale and volume in M&As from the 2000s. The change of structure in SOEs created more opportunities and free cash flow. The private ownership firms were also developing rapidly after China joined the WTO. All of the fundamentals required to engage in M&As were ready in the early 2000s. Wei et al. (2005) stated that the Third Plenary Session of the 16th Central Committee of the Communist Party (CCCCP) of the Chinese government encouraged POEs to be more active and to develop. M&As benefit from a free-market economy. This event also promoted the development of mixed ownership of M&As.

Although previous studies claimed that political effects may be detrimental to the value and performance of companies, the evidence in China renders that claim debatable. Although thirty years of reform and development in China were highly effective, the Chinese government retains the leading role in the economy and common business activities. Guo (2010) noted two political events in China: the CPPCC (Chinese People's Political Consultative Conference) and the NPC (the National People's Congress), both convened annually in the first season of year in Beijing. The NPC represents the state organs. The purposes of the NPC include appointing executives of state organ, discussing and adjusting the law and determining main concerns of state. The non-controlling parties discuss bills and

further plan for various aspects of the country through the CPPCC. Guo (2010) stated that it is different in democratic countries; only little party rivalry in China. Each 5 years, the government convenes the NCP to update economic and financial strategies, and the Central Economic Working Conference meets every year for more specific adjustments.

Guo (2015) also claimed that in Chinese financial markets, SOEs may be subject to fewer political restrictions and have more opportunities to access funding because of their good credit, lower market entry barriers, more financial assistance, and the ease of obtaining licenses. Such a biased policy provides motivation to proceed with M&As. Moreover, Cull and Xu (2003) provided evidence about bank loans, SOEs are the evident precedence because of good credit and local government support. Financial support is the key factor in business development. The Chinese financial market relies heavily on the four largest state-owned banks (Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China and China Construction Bank). This study clearly leads to the conclusion that SOEs are fundamentally eligible to engage in M&As.

In 2007, the financial crisis dramatically slowed the global economy. The majority of developed economies experienced huge losses from the crisis. Conversely, China took advantage of the low valuations of assets to make many dramatic cross-border M&As. According to Coase (1937), the nature of a firm is to seek lower transaction costs.

Chinese companies require lower manufacturing technique costs and better quality control. For example, industrial manufacturing companies are able to find more advantageous locations and resources to invest in companies or establish new factories through cross-border M&As. This process also helps advanced technologies grow rapidly; this is how the Chinese economy reformed. The limitations of technology became the basis of the strategy of the sustained economic growth of China. The solutions of technology may be self-research and development; however, to absorb others is a quick and low-cost manner in which to achieve these goals. This is one reason why cross-border M&As became so popular in Chinese firms. Using M&As to obtain foreign advanced and core technology and copyrights leads to more competitive advantages. Conversely, with the incessant development of the Chinese economy and ideological differences between Eastern and Western countries, the above activities have become a threat to the Western world. This situation causes overseas transactions to be more difficult for Chinese companies, particularly in aviation, the military, the oil and gas industries, and even infrastructure. For example, the Chinese manufacturing company Midea offered 5 billion USD to acquire German robot maker Kuka in 2016. That offer was quite sensitive for the German government because robotic technology is the core asset of the German 4.0 strategy. Since then, all Chinese cross-border M&A with German corporations has slowed down.

#### **2.1.1.1 M&As in China**

Faccio et al. (2006) determined that political connections exist in the market. Nevertheless, empirical evidence demonstrates that such connections have become difficult to explain since institutional variance and economic growth. These authors also observed that political connections are common among European companies. The findings of previous studies generally concentrated on the correlation between SOEs or POEs and company performance; few studies focused on the correlations between SOEs or POEs and firm performance in M&As transactions. Political effect was also disregarded in some studies, particularly in China's M&As market.

In China, there are 2 types of companies, SOEs and POEs. Wu et al. (2012) stated that there are 5 levels of government in China: township, county, prefecture, province and central government. Those authors defined Levels 1 to 4 as local governments. Hence, there are 2 types of SOEs, central SOEs and local SOEs. There have been many studies regarding whether SOEs can obtain more benefits than POEs, generating contentious opinions. Cull and Xu (2003) reported a positive correlation between banks financing and SOEs' earnings that became tougher with the reforming and opened-up policies after the 1980s. Wu et al. selected several econometric models to investigate the expected hypothesis, such as the OLS model with control variables and dummy variables. According to the research, there is a positive correlation between bank financing and SOEs' benefits. This study applies this assumption to explore the



performance of public SOEs and POEs in the M&As market.

Wei et al. (2005) declared a negative correlation between SOEs and enterprise value caused by the conflicts among the various interests of shareholders that may reduce an enterprise's value. Those authors observed that local SOEs experienced great political stress from native governments and the central government, for example, regarding local GDP growth, employments and unemployment. Although the findings were developed based on Tobin's Q theory and agency theory, these theories are not particularly effective in the Chinese market because of the distinctiveness of Chinese institutions. In addition, the research lacked sufficient detail to demonstrate empirical evidence.

M&As activities may be affected by market value, as Rhodes-Kropf and Viswanathan (2004) observed when M&As transactions were more numerous and when there were fewer. Their research focused on stock mergers. They posited that the managers of the bidder firm possessed private information, such as the potential price of the target firm. They claimed that M&As activities are positively associated with price movement. Their research provided the guidelines of the merger wave and also applies to cross-border markets; nevertheless, their conclusions do not apply to China's M&As market because the Chinese market is more influenced by political intervention.

Wu et al. (2012) observed that political connections may be affected by the ownership structure. The research clarified previous research on positive and negative correlations between company performance and political ties. The performance of POEs was positively correlated with political connection management. Nevertheless, the local SOEs demonstrated the poorer performance with politically connected managers since those managers must assume more public responsibilities to benefit more from political subsidies. The research was developed from the resource-based theory. It may be considered the economic instrument to decide the strategic resource distribution of companies. The basics of the theories are that the best competitive advantages depend on the management of appreciated resources. To clarify, SOEs utilize more major benefits than POEs.

To compare with Wei et al. (2005), they find state-ownership may be disadvantageous to operate, Chen et al. (2009) concentrated on who owns stock not who owns company. Those authors determined that it is the positive relation among company performance and ownership tie, besides non-linear effects may be insignificant. Chen et al. selected instruments such as ROA (Return on Asset), CFOA (cash flow return on asset), productivities and Tobin's Q as the measurements of performance. The cash flow incomes and profitability in accounting incomes may be counted by ROA and CFOA separately, and one more measurement of profitability is ROE (return on sales). Those authors selected regressions models to investigate and demonstrate results.

Tian and Saul (2008) determined that the relation between the SOEs and company performance was not non-linear, but U-shaped because China's is the exclusively economic structure that renders the situation more complicated. Claessens et al. (2008) observed that political relations may be a significant channel for corporate profits. The results may also be practical for the M&As market. Particularly when there is corruption within a transaction, the financing structure of a transaction relies on its political connections. There are also debates over the results of Claessens et al. (2008). Wang (2007) stated that whether the firms belong to SOEs is not the primary factor that determines whether firms are able to benefit from political connections. Those authors also stated that on the date of the announcement of government shares being sold in stock markets, there were negative effects on returns. Conversely, invalid announcements lead to positive effects. This may explain the uniqueness of China's economic structure, which includes political connections bringing abnormal returns.

To compare SOEs and POEs in China's M&As activities, Wei et al. (2011) compared the performance of SOEs and POEs in diverse time period. Their study evaluated performances in 3 periods using ROE, ROA and EPS analysis. The results indicated that POEs perform better in shorter time periods; conversely, SOEs perform better in longer time periods. There may be several reasons for this. First, because of the listed restrictions to acquire shell corporations, POEs must assume higher costs; conversely, in the stock market, SOEs have priority to receive assistance from local governments. The evidence also suggests significant correlations between ownership structure and

company performance. Shareholders have more controlling power to shelter companies from market risks, interest conflicts and other potential losses by the greater shareholding ratio.

Sun et al. (2015) conducted research demonstrating that political connections positively affect the M&As market and that there are positive relations between government interventions and company performance and valuation. Their first research question was whether SOE bidders conduct more successful transactions than POEs. They collected 185 SOE bidders and 640 POE bidders between 1994 and 2008. The theoretical research indicated that the SOEs well performed over POEs in long run performance. The following research issue was that do SOE bidders demonstrate more distinct performance than the POEs during a hot political period. Those authors studied Chinese M&As market in cold and hot political period. For example, there are 2 important political events are the annual CPPCC and the annual NPC, proceed in the first quarter annually (Doukas et al., 2010). The mechanism is that if government interventions determine varying performance among SOEs, then when political polices are announced, the results would significantly demonstrate that influence. Moreover, the empirical evidence indicated that the performance of SOEs is better than POEs when the transactions are conducted during hot political periods.

There are several methods that can measure long-term and short-term abnormal returns. The abnormal returns have been well-defined as the returns created by the

portfolio or securities within the periods that are not the same as the estimated level of returns. The expected returns are predictable returns founded by the assets price modelling and the long-run historical modelling. Barber and Lyon (1997) and Sun et al. (2015) adopted BHARs (buy-and-hold abnormal returns) to investigate the long-term performance of M&As over 2 years. Additional measurement tool is the CARs (cumulative abnormal returns), which represents the summation of the day-to-day abnormal return in deal periods. To confirm that the result of BHARs and VARs could be tough, the authors processed OLS regressions model to monitor other dynamics which may affect announcements consequence.

The assessment of CAR over 5 days (2 days before and after the announcements) indicated that SOEs are much more likely to become the targets of other investors in the M&As market. Moreover, the greater valuation of political connections may be attributed to tighter government interventions. Nevertheless, during cold political periods, SOEs' targets indicated non-significant effects on the M&As activities. The results of test indicated that the SOE has the best 2-year BHAR in hot political period. The bidder who takes over SOE obtains better CAR than the bidder who takes over POEs. Sun et al. (2015) selected OCFR (operating cash flow return) to explore the operating performances of SOEs. The researchers used the operating cash flows over sales to assess the per-unit sales profits. The employment could be another essential influence of SOE. Those authors used the employment rates to determine that when complete the transaction directed by the SOEs' bidders, the poorer debt ratio, greater

asset value per capital and greater capital expenditures ratio in the SOE compared with the POE. These outcomes indicated that the SOE has more competitions in Chinese markets.

Sun et al. (2015) made distinctive contributions to academic research. Their study updates tested the relations between state-ownerships and company performances in Chinese markets. It could be beneficial to investigate Chinese M&As activities since it had become the 2<sup>nd</sup> biggest economy worldwide. There were several creative findings in the study; for example, the authors combined state-ownerships and company performances and separated time periods by cold and hot political periods according to the CPPCC and announcements of fresh regulation connected to M&As activity. Nevertheless, the study has not made comparisons of China and overseas M&As markets. The performance of Chinese companies and overseas companies are investigated in this study.

#### **2.1.1.2 M&As in Overseas Markets**

Si (2014) stated that China experienced 3 overseas M&As waves. The first wave was between 1978 and 1991, with narrow outwards and inwards FDI (foreign direct investment). The second wave was between 1992 and 2005, with narrow outward FDI and huge amounts of inwards FDI. The recent wave was from 2006 to the current, with outwards FDI indicating rapid growth compared with inward FDI. The results

also demonstrated that there was tight but positive relation between FDI growing and the macro economy. The study also noted that the motivation of China's outward FDI shifted from political intervention during the primary period to assets and markets. The reason for the shift was that China had become the major foreign reserve worldwide. Consequently, outwards FDI became the significant tool compared with inwards FDI. Yao et al. (2010) observed that although China's outward FDI was experiencing quick development, the volume of shares remained small compared with other large economies worldwide.

Dong and Guo (2013) agreed that the SOEs, including those that were state owned and state monitored, acting the dominant part in China outwards FDI activities. The government retains the majority of management appointments of senior executive positions, even if the majority of SOEs have been listed on the public stock exchange. Wei et al. (2005) observed that for several years after the reforming, comparing with local private and overseas firms, the SOE obtained meaningfully poorer returns on capital. The SOEs in Chinese market generally demonstrate poorer performance in overseas M&As markets and also experience greater stress from targets based in developed markets, even if the operating capacity of the target companies is decreasing. Dong and Guo (2013) also presented the case that CNOOC (China National Offshore Oil Corporation) spent \$19 billion attempting to control a U.S. oil company and was ultimately unsuccessful because of political obstruction from its government. Conversely, the POEs of FDI experienced less political obstruction; the

failure of their cases was commonly because of business issues rather than political effects.

Globerman and Shapiro (2009) reported that U.S. policymakers expressed conceptual concerns regarding inwards FDI from Chinese market, such as policymakers of developed markets, particularly regarding state-ownership or monitor under the bidder companies. Precisely, larger companies below political monitor would carry ownerships in different manners to permit China's SOEs to engage in non-commercial purposes and to transfer the costs and other risks to the U.S. In fact, the primary concerns of U.S. companies and policymakers were the threat of Chinese competition. Therefore, the establishment of the CFIUS (committee on foreign investment in the U.S.) was to assess whether an activity was a threat to U.S. interests, particularly in the areas of securities and core resources.

Kalinova et al. (2010), Koyama and Stephen (2006), and Zhang and Daniel (2014) developed their research using the FDI RR Index (FDI Regulatory Restrictiveness Index) to develop statistics on the statutory restrictions on inwards overseas direct investments. The bottom scores of FDI RR Index is zero, indicating that it could not have regulatory restrictive FDIs, and the top score is 1, indicating that the country completely restricted FDIs. Of the average restrictiveness of inward FDIs demonstrated by various countries, the U.S. (0.089) and EU (0.041) were both less limited than China (0.407).



In addition, Chen et al. (2009) argued that the single entity approach may be applied to measure the purposes of M&As transactions. For example, if the government of China were being monitored, the relative commission would place all of Chinese SOE in identical sector as components of a particular entity. Nevertheless, Zhou et al. (2012) disagreed with this point of view, believing that the single entity method may have the possibility to become the antitrust or time bomb of Chinese SOE, that could be an important factor rendering the relation between China and Europe more complex.

The unsuccessful transaction of Chinalco making a tender offer to Rio Tinto, which was the strategic activity, attracted global attention and generated tough criticism of China. Rio Tinto unilaterally rejected the primary agreement with China and was facing bankruptcy. Chinalco was the one of the largest Chinese companies for natural resources, particularly for overseas investments and acquisitions of large foreign multinational firms. The unsuccessful Chinalco transaction kept Chinese steel companies in a difficult position and experiencing massive losses, and they were required to continue more difficult negotiations. Chen and Wang (2012) provided evidence that China's SOEs experienced tough challenges regarding cross-border M&As markets.

Globerman and Shapiro (2009) provided evidence that attempts to take over U.S.

firms conducted by emerging market entities such as China caused strong disagreements. For example, when the CNOOC (China National Offshore Oil Corporation) attempted to take over Unocal in 2005, numerous U.S. politicians spoke up against the transaction. Thus, the process took a long time, and finally the transaction failed when CNOOC cancelled it.

By contrast with Globerman and Shapiro (2009), Zhang and Daniel (2014) observed that because of national security concerns and political opposition, the U.S. rejected M&As offers. Nevertheless, European countries have comparatively more tolerant attitudes towards China's SOEs. The European market has become the preferred market because of the numerous cases of Chinese companies being indirectly blocked from committees of the U.S. state governments, leading to many significant failures.

Zhang and Daniel (2014) disclosed due to the rapid growth and growth of Chinese overseas investments in European M&As transactions, the public attention began to look at to the M&As transactions related to Chinese investors, particularly when the bidder was a SOE or had a related background. For example, in recent decades, there were 2 failures of Chinese companies' M&As transactions because the Netherlands and Poland had strong reactions to the transactions. Although China responded, detailing the participants and the target European companies and assets, many European politicians advocated modifying European attitudes towards China's SOEs, FDIs and trading in Europe. The politicians expressed worries regarding threats to

national security and established authorized blocks against China's M&A activities, such as defending high technology companies.

As evidence of the above, Si (2014) demonstrated that China's Outward FDI was experiencing great growth, from 10 billion USD in 2006 to approximately 70 billion USD in 2011, and SOE was also major participants. Si also argued that the growth of Chinese economy benefited from the superior business operating of SOE in overseas M&As markets.

Therefore, according to the literature cited above, this paper investigated the performance of China's listed companies that were associated with overseas M&As activities. The research hypothesis was that when overseas targets are private firms, the activity benefits the Chinese listed bidders on stock performance. The CARs model and Tobin's Q theory were applied to evaluate the performance of the bidders. Several studies investigated whether Chinese bidders' performance was affected by international political factors in overseas markets. The empirical evidence indicated that although the M&As transactions of Chinese companies grew tremendously, Chinese companies nevertheless experienced difficult obstacles from developed countries such as the U.S., Europe and Australia. To compare and summarize the literature, this paper selected the 2 directions of Chinese companies: bidders and target in cross-border M&A transactions. The data were from 1990 to 2016, and the performance of Chinese public companies was listed in the Shanghai and Shenzhen

Stock Exchange. The overseas data of bidders and targets were collected from Thomson One. The empirical evidence was created using various models and factors. The research compares the findings with other previous studies.

## **2.2 Literature Review and Hypothesis Development**

### **2.2.1 Hypothesis**

There have been increasing trends in the number and size of M&As in China since globalization policies and strategies. With the M&As transactions that have been disclosed, China cross-border transactions were appropriate for measuring whether M&As are meaningful decisions for Chinese enterprises.

The assumption focuses on the return of acquirer companies. Supposing that China's economy runs efficient, the influence of M&As must be echoed in share prices of acquirer firms. Fama (1970) defined the efficiently running markets as if the share prices reflect entirely obtainable information. Hence, the influence of M&As may be demonstrated during the period of announcement adopting the fluctuation of acquirer's share prices.

Nevertheless, Guo and Petmezas (2012) stated that numerous researches selected the U.S. and the U.K. as sample data and concluded that acquirers obtain negative to zero

return from engaging in merger activities. M&As activity is a strategy that management pursues to create value. An explanation of value damage which could work to free cash flows theory is that manager would like to enlarge the firm over beyond the ideal size (Jenson, 1986). For another explanation, Lu et al. (2008) claimed that the rate of profitability is growing in Chinese market, particularly in SOEs that were highly monopolized. Therefore, expansion may be a reason to engage in M&As in Chinese market. The China's business environment encourages concept of larger and tougher, therefore increasing the attractiveness of M&As (Jiang et al., 2011). Ding et al. (2010) observed a positive relation between large-scale investments and investment efficiency. They also observed that the degree of overinvestment appears to not be a primary issue in China's economy.

Therefore, this chapter concentrates on how methods of payment affect M&A returns.

The three hypotheses are listed below:

H1: The Chinese listed companies derive positive abnormal returns in the short term when they finance a cross-border M&A with cash.

H2: The Chinese listed companies derive negative abnormal returns in the short term when they finance a cross-border M&A with cash.

H3: A transaction financed with cash outperforms a transaction financed with stock.

Methods of payment in cross-border M&A transactions include cash, stocks and leveraged buyouts. These hypotheses are the opposite of the results of Moeller et al.

(2004) but are consistent with Emery and Switzer (1999) and Dutta et al. (2013). The reason may be because the Chinese stock market is more volatile because ~~over~~ 90%the majority of investors are individuals; few investors in China are institutional investors.

Chinese companies have become the major buyers in the global M&As market. Many transactions were large or remarkable. I focus on the cross-border transactions conducted by Chinese public companies. Numerous remarkable transactions were completed by Chinese buyers in the global M&A market. Many issues remain that may prevent a successful transaction, such as synergy problems, culture, law issues, and the tax structure. Chinese buyers remain in the beginning stage. This thesis does not examine operations or management issues although the author attempts to provide some academic support for the transaction stage. The result would be applicable for selecting an appropriate target and form of trade. In addition, these results are applicable to how an investor may accrue benefits for its shareholders when a company becomes a takeover target. Cross-border M&As in China increased in the 21st century and became more active after the financial crisis of 2007, only 10 years ago. Many basic models and theories in the M&As market began development in the past century. When China became the second largest economy in the world, the structure of the market changed, and China began participating more often in global affairs.

## **2.2.2 Motivation of M&As**

The traditional theory is that the motives of M&As generate more value added to the companies. There are three major theories regarding the motivation of M&As within academic communities: synergy, the hubris hypothesis and agency motives.

### **2.2.2.1 Synergy**

Haspeslagh and Jemison (1991) described the synergy effect, and Gate and Very (2003) developed the definition based on their research. Gate and Very claimed that resource sharing is the most direct benefit of synergy. Retail is as an example of cross-selling a product, and services may cause revenue growth; simultaneously, a lower cost economy strengthens the power of sales. In addition, such an economy combines less efficient management, thus lowering costs. For example, a brand is partially tangible but simultaneously an intangible asset and may also be transferable. A functional professional skill may be another transferable asset that creates more value for the transaction, such as a competitive market advantage or exclusive technology.

Larsson and Finkelstein (1999) stated that the realization of synergy theorizes the M&A performance and attempts to obtain the properties of outperformance. Those authors constructed an integrative model that treats synergies achieved as a dependent

variables, blend potentials, amount of combination reached and the lacking of employee confrontation are independent variables. This study identifies similarities in production market and operations of production that are carrying the complementarity of product markets. The results indicated that complementary operations may improve the effects of synergy when organizational integration is fulfilled.

#### **2.2.2.2 Hubris hypothesis**

Roll (1986) opined that hubris hypothesis can be the underlying clarification on M&A activities. The hubris hypothesis can be described as the angle of more individual decision makers in tendering companies and may clearly explain the ‘why’ of decision-making. The M&A is conducted with a higher valuation than the current real value, indicating that the asset is overvalued. Acquirers are affected by the hubris hypothesis and likely offer a higher value than the target’s real value. The empirical evidence in M&A activities tests the hubris hypothesis with massive historical data on both the short and long term. The hubris hypothesis is also associated with other factors such as synergy theory, taxation effects and ineffective management theory. These are also key factors to evaluate whether a transaction was successful.

#### **2.2.2.3 Agency motives**

Some studies on agency motives theory stated that management tends to overpay for



candidates. Although such overpayment is for individual satisfaction, it is also at the cost of shareholders. Ultimately, a few particular studies related to takeovers and diversification decisions applied agency motives theory to explain the scenario in which a striking offer is declined by managements of candidate or bidders, whichever acquiring comparatively disadvantageous candidate or withdrawing from takeover of advantageous target (Canella and Lubatkin, 1998 and Achampong and Zemedkun, 1995). Although adverse effects of fulfilling management's personal interests that affect acquisition decision-making were established as a theoretical explanation, there are inevitable resultant opportunities that cannot be measured.

Berkovitch and Narayanan's (1993) test sample of data from over 330 successful tender offers between 1963 and 1988 explored the motives that drive M&As. It has been acknowledged that a few takeover transactions were essentially encouraged by the self-interest of bidder's administration. Few explanations had investigated to explain the deviation. These situations were diversifications of governance's separate portfolios (Amihud and Lev, 1981), the use of free cash flows to grow the scales of business (Jensen, 1986), and acquired asset that extend corporation's dependency on administration (Shleifer and Vishny, 1989). The principal awareness in the majority of explanations was that a takeover leads to loss of interest for the shareholder of acquirer by the managers of bidder. To take an example, the specialists in bidding are related to their own company; thus, the successful synergy of entities relies on their particular knowledge and experience. They would also claim that management may

change reliance to raise perquisites consuming otherwise beat opponents who had good performance in terms of processing particular operations. Such managerial movements lead to agency cost that declines total value of the merged enterprise (Berkovitch and Narayanan, 1993).

#### **2.2.2.4 Diversification**

Moeller et al. (2004) claimed that the large degree of markets integrations tends to result in the reverse effect on the company in cross-border deals. Markets integrations could lead to the growth in degree of competitions or to less synergy for the acquirer. Furthermore, a greater degree of integration associated with a reduction in costs in cross-border transactions leads to an increased possibility of hubris and agency issue and may also result in a decline in the bidder's return. Martynova and Renneboog (2006) stated that diversification of corporations may lead to value losses. They observed that a decision to diversify strategy is primarily motivated by the private interests of management at the cost of shareholders. This concept is also associated with the diversification discount. If the motivation for acquisition is purely diversification, the bidder's stock price movement will likely underperform (Lang and Stulz, 1994).

Feito-Ruiz and Menéndez-Requejo (2012) investigated the advantages and disadvantages of diversifications. They reported empirical evidence indicating that

diversification decisions result in a loss in acquirer's value because of high agency costs (Lang and Stulz, 1994; Berger and Ofek, 1995; Servaes, 1996). Diversifications may be defined as the internal consideration, and those authors claimed that the decision affects the value of a company by combining competitors' advantages. (Graham et al., 2001; Campa and Kedia, 2002; Villalonga, 2004). Considering the advantages of diversification, several studies reported that the internal capital market may lead to growth of the diversified company's value (Chang and Hong, 2002).

#### **2.2.2.5 Mergers Waves**

According to Gärtner and Halbheer (2009), M&As activities occur in waves, and Steiner (1975) applied multiple regressions to investigate transaction volumes and values created by M&As activities in different time periods. Beckenstein (1979) concluded that M&As activities may be affected by securities prices and interest rates. Furthermore, Beckenstein (1979) stated that if the economy is in a positive trend, M&As activities are not only pervasive but also perform better. Therefore, when the economic growth rate is accelerating, the assessment of asset value growth increases as much as the performance growth of the entire company.

There is speculation that mergers of the same type are concentrated in specific time periods (Harford, 2005; Rhodes-Kropf, 2005), and there are six major M&As waves evident in an empirical investigation of historical data. These waves were quite

helpful in investigating bidders' returns. The merger waves always begin during economic booms and end in economic recession. Once the wave begins, there is a great volume of M&As in the wave (Lipton, 2006).

The initial wave occurred by 1893 to 1904. This is a period of significant horizontal merger, primarily M&As occurring in telecom, mining, railways, steel and oil in the U.S. The M&As in the manufacturing and transportation industries became most active in 1907. An important antitrust law which was established in the Supreme Court in 1904 applied to horizontal merger. Then the initial wave ended because of World War I, that few viewed as a continuance over 1904 (Lipton, 2006).

The second wave, between 1919 and 1929, was principally vertical merger. In these periods of time, consolidations tended to be vertical. Automobile manufacturers integrated the suppliers of car materials; steel, railroads, iron ore shipping and coal mines were principally restructured by consolidation. However, the crashes and the Great Depression terminated the wave in 1929 (Lipton, 2006).

The third wave, between 1955 and 1969 or 1973, principally comprised diversified conglomerate mergers. The innovative concept of a conglomerate developed during this period. The major participants sought to establish more inroads into different sectors and fields. When the conglomerate stock lastly failed in 1969, those firms were not able to take advantage to diversifications through the transactions.

The fourth wave, between 1974 and 1989, principally comprised congeneric merger, hostile takeover and corporate raiding. M&As is most prominent during the periods of time and contribute to innovation in finance technologies using financial leverages and deregulations (Mitchell and Mulherin, 1996). In the year of 1974, the finance service company Morgan Stanley effectively entered to takeover market of investment banks for the first time. Morgan Stanley was primarily involved in hostile takeovers and issued junk bonds to increase the LBO market in the U.S. and Europe. Till 1987, hostile takeovers with two-tiers, front-end-loaded, boot-strap, bust-up, junk-bond and hostile tender offer caused the equity market falls (Golbe and White, 1988).

The fifth wave, between 1993 and 2000, was principally cross-border merger. Follow the progress of globalization, M&As come to be the most strategic thought to enhance competitiveness worldwide. Cross-border M&As were generally associated with huge international companies, even oligopolies. Therefore, the valuation of the deals during the period of time was extraordinarily huge. The M&As global size grew from 1992 with \$342 billion roughly tenfold to \$3.3 trillion, and 9 of the 10 major transactions occurred in the final three years (1998-2000). Although governments became involved in monitoring the cross-border M&As during the past five years, the effects were insignificant.

The different forms of M&As during the various waves produced "once-unthinkable

combinations such as the mergers of Vodafone and Mannesmann, Citibank and Travelers, Boeing and McDonnell Douglas, Chrysler and Daimler Benz, AOL and Time Warner, Exxon and Mobil' (Lipton, 2006). A primary reason of these waves were significant was because the global market was disconnected. Global markets activated the cross-border M&As because they were an effective manner in which to develop the global market and avoid diverse cultural effects. The best example is Wal-Mart's successfully entering the U.K. market by acquiring ASDA in 1999. At that point, other companies began to be anxious about the upcoming of international competitions and joined the wave dramatically. This increase caused a worldwide plundering war (Jovanovic and Rousseau, 2002). Finally, the wave was terminated by the millennium bubble and the Enron scandals (Lipton, 2006).

The sixth wave, from 2003 to 2008, was principally shareholder activism, private equity and LBOs. Several entities or countries, such as France, Italy and Russia, were primary factors of this wave the government supported the creation of the influential domestic or international champion, increasing commodities price and lowering interests and the availabilities of hedge fund. The active investors and the remarkable development of private equity fund engendered more M&As.

### **2.2.3 Cross-Border M&As Transactions**

Cross-border M&As are the business integration of a domestic company participating

in one or more overseas companies to construct a new company. The integrating companies hold the assets from both sides (Gaughan, 2011). Acquisitions are different from mergers, which comprise one company acquiring another by obtaining the ownership of the target company for the purpose of taking over the governance (Whitaker and Hoboken, 2012). The distinct difference between these two activities is valuable when investigating the M&As phenomenon.

Seeking tangible and intangible assets may conceivably be the driving force for companies to execute cross-border M&As. There are several targets for the transactions: maximizing capital gains, obtaining managerial benefits and tax savings.

The motivations for M&As may be divided into three different areas (Angwin, 2007): first, to realize economic growth; second, strategic consideration to lay a solid foundation for economic growth, for example, to obtain a greater market share, raw materials and technology; and third, the behavioural incentives that reflect the needs of target and bidder companies.

Additionally, several aspects contribute to cross-border M&As. M&As activities may have technological advantages, which help to offset the cost of research and development. In addition, the openness of regulations may help cross-border M&As accelerate the liberalization and privatization of markets. Cross-border M&As are crucial to realizing geographic diversification and global collaboration. (Dos Santos et

al., 2008) Finally, cross-border M&As reduced the stress of the financial crisis in 2007 and contributed to economic recovery (Grave, 2012).

The valuation of the rewards of cross-border M&As is the specific investigation based on the value appreciation or depreciation before and after the transaction; in other words, the entire activity of M&As may have positive or negative effects on the bidder and the target. The market-based returns may be applied to estimate the performance of cross-border M&As (Bruner, 2004). The Lerner Index may also be applied to measure the creation of market value (Kim and Lyn, 1986).

Conversely, cross-border M&As may be failures for certain companies for various reasons. The transactions may be executed at an inappropriate time. Angwin (2007) observed that the transaction may lose returns in an early stage or perform more poorly five years after the transaction. The results of M&As may be affected at different times.

As the support of economic reforming and open market policy, the integration of domestic and overseas assets developed dramatically. The financial crisis had massive effects on cross-border M&As, which may be demonstrated by FDI (foreign direct investment). After the financial crisis, the global FDI reached its lowest point at \$1,197,824 in 2009 and began recovering gradually after 2010 (Chor and Manova, 2012).



The global market was deeply affected by the financial crisis whereas the cross-border M&As accounted for the majority of FDI (Coeurdacier et al., 2009). Transaction values peaked at the beginning of 2008; then the M&As transaction value in China declined gradually. The number of M&As transactions is correlated with financial crises (Mariana, 2011). During the peak years, Chinese companies accounted for 44% of the bidders and 42.3% of the targets in M&As transactions; these numbers dropped to 34% and 32% in 2010 (UNCTAD, 2010). Therefore, there is a robust relation between financial fluctuations and cross-border M&As (Mariana, 2011).

Mergers may generally be categorized in following conditions: horizontal, vertical and conglomerate. Horizontal mergers occur when two corporations are combined into one company in the same industry (Baik, 1995). Vertical mergers involve the integration of two companies that have a buyer-seller relation and represent the diverse phases of production. Conglomerate mergers signify the combination of companies from different industries or different sectors and have neither a buyer-seller relation nor a competitive relation (Gaughan, 2011). Different types of M&As lead to different analytical results and company performance (Bouwman et al., 2003).

Merger waves are clearly different from previous waves with creative new methods of consolidating companies and defending the merged companies. There were six merger

waves between 1897 and 2003. These waves may be identified by the features of corresponding M&As, improving the credibility of analysis (Moeller and Brady, 2007).

There are three theories of M&As motives: the mergers as the lucid choice, the mergers as procedure consequence and the mergers as a macro-economic occurrence. The first theory may be the most significant motivation, comprising efficiency theories, monopoly theories, raider theories and valuation theories and suggesting that the interests of shareholders and managers are the first priority of the transaction. The second theory notes that M&As are a process outcome governed by individuals, organizational routines and political power. The third theory suggests that merger waves are stimulated by the economic disturbance (Friedrich, 1990). The assessment is based on different motivations, which provide more evidence to verify whether M&As add value to the performance of a company and whether the results of M&As are consistent with the motivations.

M&As activities may lead to both positive and negative performance of the transaction. Companies may increase their income and market share and strengthen profitability and value creation by M&As. Nevertheless, M&As may also have negative effects, such as hurting the value for the shareholders of the bidder firms and experiencing losses in profitability. Assessment of performance would be important to research to determine how it affects the performance of bidders and targets. The

outcomes of M&As are generally measured using stock-based data and accounting-based data. Stock-based data measure the transaction's effect on stock price movements for the bidder company before and after the M&A announcement. Deans et al. (2003) suggested that a good performance of the stock value of the bidder company represents a successful M&As transaction and simultaneously increases the wealth of shareholders. Nevertheless, stock-based data have unavoidable limitations; thus, using accounting-based data is also supported by scholars. Investigating the accounting performance of bidder companies can determine whether M&As enhance or destroy value (Ooghe et al., 2006).

After China has joined the membership of the WTO (world trade organization), the regulatory policies were more supportive and helped corporations work with overseas firms instead of against them, allowing the activities of cross-border M&As to grow quickly. Nevertheless, to successfully complete an M&A transaction may be a challenging task.

M&As are a business activity in which one or more companies are bought or combined (Chong, 2007). As stated by Brealey et al. (2006), there are three major types of M&As: vertical mergers, horizontal mergers and conglomerate mergers.

There are three important motivations for Chinese companies to participate in cross-border M&As. The primary motivation is to gain technologies and resources.

Shimizu et al. (2004) noted that the M&As transactions conducted by emerging markets such as China to developed markets may also be motivated by invisible assets such as patented technology.

The second motivation is to encourage access into a new market and expand market share. Transnational M&As transactions provide the opportunity to access new markets directly with the existing sales volume; this is less time-consuming and costs less than to establish an international branch with foreign liabilities, considerations of organizational constraints and the differences in cultures and business practices (Datta and Puia, 1995; Barkema and Vermeulen, 1998). For example, Lenovo acquired IBM to expand overseas markets and sales, to avoid trade barriers and to increase its market share of personal computers.

The third motivation is diversification. Cross-border M&As provide opportunity to lower costs and risks of accessing new markets. Boateng and Glaister (2003) also observed that risk may decrease by asset diversification across different markets. Friedman and Gibson (1988) and Trautwein (1990) demonstrated that a company involved in M&As transactions is generally seeking synergistic effects. Cross-border M&As may increase the capacity of business, cut costs by large-scale production, increase the diversity of services and products, and expand market share in the long run (Doukas and Travlos, 1988; Ghauri and Buckley, 2003). Nevertheless, cross-border M&As are complex events for companies, and the risks may appear in

any stage of the process. Previous research on cross-border M&As indicated that the risks fundamentally involve six aspects: finance, human resources, strategy, law, culture and customers.

The uncertainty of the separation in capital structure, information asymmetry, and the difficulty of integrating different companies may enhance the financial risk for transactional M&As (Zhou and Zhang, 2010).

Blake and Mouton (1985) demonstrated that the majority of employees are unwilling to experience the execution of cross-border M&As. Cartwright and Cooper (1993) reported that senior management also experienced nervousness during M&As. The anxiety and stress may result in a risk to human resources.

The cross-border M&As are opportunistic-oriented instead of strategic-oriented for the companies; companies anticipate realized and direct profits (Mirvis and Marks, 2001). Consequently, M&As may lead to strategic risks.

Another risk is the law. The dissimilarities in the laws of different governments and countries may contribute to an anti-merger policy, which destroys the equilibrium between companies.

Regarding the culture risk, Berry (1983) noted that there are three phases during

which people adopt different cultures: adaptation, conflict and contact. Nahavandi and Malekzadeh (1993) clarified that if the adaptation is not positive, the dissatisfaction of employees may result in the underachievement of the operation.

Moreover, Temporal (2002) noted that transactional M&As may lead to confusion in customers, such as a new co-brand, particularly when a well-known brand is acquired by a non-famous brand. This confusion may increase uncertainty among customer categories.

#### **2.2.4 Chinese Bidders' Returns in Cross-Border M&As Transactions**

This part of the literatures review contains further study that contributes to M&As of Chinese bidders. The core objective is to fill the information gap regarding Chinese bidders' returns in cross-border M&As. Because the Chinese M&As market began much later than developed markets, data and resources directly referring to Chinese cross-border M&As are quite restricted. Hence, the referenced literature primarily derives from the research of Western scholars. This review also quotes common characteristic and methodology of different theory and empirical finding that are more significant to China's cross-border M&A transactions. The following literatures review includes the motivation of the M&As, the factor that affect bidder returns, forms of M&As, methodology and past merger waves. Finally, the review corresponds to the distinctive features of Chinese enterprise structures and the

findings of Chinese M&As.

To study the bidder returns of M&As, the research question was to identify the difference in the value of the company after the transaction and what was expected by the investors. The majority of the answer is that the value grows after including operational, financial and collusive synergy (Chatterjee, 1986; Trautwein, 1990; Yook, 2003).

Operational synergy is an essential indicator of whether a M&As transaction was successful. It reflects that the general effectiveness of the company after the transaction should be better than the sum of the original two entities. Operational synergy primarily reflects structural changes in companies' operational actions to improve the quality and quantity of producing (Gupta and Gerchak, 2000). There are two significant theories support this perspective. When economies scale increases capacity of production, fixed costs decline, such as management costs, equipment costs and advertising costs. The other theory is that the vertical process creates benefits from lower transaction costs between suppliers and consumers and enhances the operations between departments to obtain better quality services and products.

Management synergy principally reflects management systems, which is sharing the resources of both companies after the transaction, improving management quality. If the efficiency of management is quite different in the two companies, the inefficient

company may benefit from the more efficient one after the transaction. This type of synergy requires both companies to have similar management systems. If not, the transaction process renders it difficult to obtain benefits from management and even tends to be more costly (Bradley et al., 1988).

Financial synergies are reducing internal cost of holding capital and reinvesting reserve earnings or cash to the portfolio, consequently increasing efficiency of the use of capital. The synergies may be reached by entirely forms of M&As transactions and may be major motivations of M&As. To take an example, mature or recession firms may hold plenty of capital however lack a proper opportunity to finance to their own industry. Hence, M&As may support their building a better investment portfolio. Fresh and active companies invest more when they have a lower debt ratio.

Other studies regarding creating value by M&As also discuss market power, such as monopolies (Ghosh, 2004), tax benefit, diversifications and growth of equities (Mandelker, 1974). Nevertheless, numerous empirical results suggest that M&As might shrink the valuation of a company because of managerialism (Seth et al., 2000), hubris (Roll, 1986) or because the valuation of the synergy did not signify value of target (Andrade et al., 2001). In general, once the M&As announcement is released, the share price is swiftly reflected, and changes are led by short-term factors. The price returns to a steady level in the long term.



The majority of investors are only engaged in short-term returns in M&As transactions. Because the influence of synergy generally needs long-term reflection, the short-term factors are also worthy of study. The short-term factors could contain the nature of the targets, methods of payments, locations of the target, industries similarity, ownership structures, etc; and the benchmark to assess whether the factors are positive or negative are abnormal returns (Tao et al., 2017). The definition of abnormal returns is excessive returns that are much more than the expected returns in particular events (Brown and Warner, 1985).

M&As represent considerable reallocation of resource within or across industry in capital market; hence, the way to distribute different resources straight affects performance and expected returns for shareholders (Andrade et al., 2001). M&As may be classified in flowing forms: horizontal, vertical and conglomerate M&As.

Horizontal M&As contain the same or similar customer-related businesses between companies and suppliers or at least represent a similar economic environment. This type of M&A normally does not include a company that focuses on its own business and grows slowly. Conversely, when the company feels the demand to take advantage in a business sector, the M&A is the strategic choice. A M&A is more likely to enlarge market share and cut costs in its business sector. This form of M&A is positive for operational and managerial synergy (Jones, 1982).

Vertical M&As concern two companies that are related, such as suppliers and demanders. One company may receive better services or product as of its partner and may run more efficiently if it does not require cash flows and negotiation. This form of M&A is more possible to raise competitions by declining cost (Jones, 1982).

Conglomerate M&As occur between two unrelated companies that are most likely seeking diversifications or finance synergies. This form of M&A is ideally positive for risks moderation. Nevertheless, there may be numerous issues, forcing the bidder firm to spend more managing an unfamiliar business and receiving fewer benefits (Mitchell and Mulherin, 1996).

Regarding the methodology of research, several tools and theories must be understood to investigate M&As.

CAPM (Capital Asset Price Model) was developed by Markowitz (1959). It is quite a well-known and fundamental concept that is applied to assess the return on assets by considering risk (variance), and it is the most acceptable theory in the financial area. Most researchers use the model to investigate market efficiency on portfolio performance, and the risk to the portfolio can be quantified by beta (Fama and French, 1993). Two methods are broadly used to measure the returns. The P/E ratio (price to earnings ratio) are used to assess the return of bidders; it is highly focused on earnings and ignores other relevant risk factors such as book to market, leverage ratio, and

sizes (Ball, 1978).

The market to book ratio is the sign adopted to evaluate book and market value. It straight assess bidders' returns. Nearly all studies on M&As must consider the volume of transaction. Wansley (1983) claimed that big companies are facing more issues with methods of integration and payment. M&As transaction is principally reallocation of resource (Andrade et al., 2001); therefore, large transactions offer more opportunities to managers to derive more benefits, such as market power and reputation in the market. By contrast, more opportunities also mean more volatility in the bidder's returns (Marris, 1964). Moreover, the methods of payments for big transactions are more often stocks rather than using cash (UNCTAD, 2000). There is an empirical result indicates that a cash payment is more efficient in reaching the expected returns on the target than financing with stocks (Schmidt and Ruhli, 2002). Therefore, many studies classified various sized firms in different tiers and divided the firms into financing and non-financing (Uddin and Boateng, 2009).

Most studies categorized the bidder's return on M&As activities into long-run and short-run returns. The market performance of bidder firms is assessed by the cumulative abnormal return before and after announcement date (short-run returns). Then the event window may be applied to observe the CARs (Schwert, 1996). Over the long run, transactions lasting more than 3 years are measured as operations performance. In addition to calculating the CARs for long-run returns, the returns on

earnings, profit margin and returns on equity are also used as sign for observations. The cross- sectional research statistically calculates relations among variables in which CARs are the dependent variable.

The Chinese M&As investment environment is quite different from the environment in the U.S. and Europe. There is some special characteristics in Chinese market. First, the Chinese markets are likely more isolated than developed market in which it is easier to conduct transactions. Chinese market own two but connected stock exchanges, the Shanghai Exchange and the Shenzhen Exchange, and three commodities and future exchanges, the Dalian Commodities Exchange, the Shanghai future exchange, and the Zhengzhou commodities exchange; and one financial futures exchange, the China Financial Futures Exchange. These exchanges are quite dynamic and fulfil national demands in the financial market. Nevertheless, Chinese investors are not able to directly participate in foreign security through different market and must use other channels such as funds or other agencies, which are more expensive and more difficult. Thus, if cross-border M&As in China create benefits from onshore to offshore, the bidders in China must be supported by regulators and governors. Second, state-owned enterprises are the most competitive companies, and they represent the 242 largest companies in China. And these companies are more diverse from other firms. They could be less sensitive to market factors since they are held by the state. A study by Chen and Young (2009) observed that structures of ownership in Chinese market has major effects on performance because SOEs have the support of

the police, or at least they are backed up by the government and have better credit assessments than private companies.

## **2.3 Data and Methodology**

### **2.3.1 Sample Selection and Data Description**

The selected samples contain all M&A transactions (complete or incomplete) involving Chinese public companies as bidders from 2002 to 2016. The primary data were collected from the Thomson One Banker transactions (SDC) and the GTA (CSMAR) database. Similar to Fuller et al. (2002), the samples selected fit following criteria:

1. The acquirer must be Chinese firms listed in the Shanghai or Shenzhen Stock Exchanges.
2. To test hypotheses, all transactions must be announced, including all Chinese listed firms' cross-border transactions.
3. The target firm may be public, private or other and must be a non-Chinese firm.
4. The acquirer firm must have been publicly listed for at least 1 year before and after the acquisition announcement.

The sample began in 2002 when Chinese public companies began to acquire foreign

companies. By the end of 2016, there had been 465 acquisition announcements of Chinese listed company cross-border takeovers.

### **2.3.2 Methodologies**

This dissertation evaluates the financial performance of over one thousand public Chinese enterprises participated in cross-border M&As by adopting the events study method. The empirical study may be applied to measure effects on shareholders' assets by stock markets data after the transaction. The events study method is which firstly suggested by Fama et al. (1969), this was one of the most regular M&As performances assessment tool. This approach assesses effects of events throughout the periods of stock prices volatilities. It echoes investors' expectations of yet to come operation of events. Event study approach uses the markets model approach to assess separate firm's expected rates of returns throughout events periods, and then compares differences between expected rate of returns and actual return. Lastly, the method computes differences between accumulated excess returns and zero to decide whether events significantly affected the firm's share prices. The fundamental hypothesis is that capital markets are efficient, that suggests that capital market is able to precisely reflect economic activities (Fama, 1970). Another assumption is that securities prices may precisely echo present accessible public information and hold capability to correct quickly established on announced of the latest public information.

Jensen and Ruback (1983) previously applied event study research to M&As. They selected this approach to test short-run market performances of M&As. The typical events study testing models that was applied to exam performances of M&As had certain restrictions, for example, that there is no way to separate the effects of non-related conflicts as the event periods increase. Thus, academics have begun to adjust this method to increase its efficiency. Franks et al. (1991) used 8 factors to measure performance, which challenges the former model using simple long-term testing of market structure, significantly developing the dependability results of the long-term performance of M&As.

For all transactions, the acquirers are classified into two groups, transactions financed with cash and with non-cash. In addition, the performance of bidders will be observed for several days beginning approximately 2-5 days before the date of acquisition announcements and ending approximately 2-5 days after the announcement.

The steps are as follows:

Step One: The event is defined as a cross-border M&A, and events periods for each cross-border M&A transaction are defined.  $T=0$  is defined as firm first announced the cross-border transaction announcements date. The event periods are  $T_1$ ,  $T_2$ .  $T_1$  stands for 2-5 days earlier the announcements date, and  $T_2$  stands for 2-5 days later the announcements were free to public.

~~Step Two: Compute day-to-day actual rates of returns for transactions date of separate sample while events periods [-2, 2], [-5, 5].~~

~~The actual returns rates of the “i” firm for T days are defined as~~

$$R_{iT} = \frac{P_{iT} - P_{i,T-1}}{P_{i,T-1}}$$

~~where “T” represents time.~~

~~$P_{iT}, P_{i,T-1}$  represents closing prices of the “i” shares on trading day T-1 and T, separately. Using closing prices eliminates effects of dividends, rights issues and other incidents on closing shares prices for every company sample.~~

Step ~~Three~~Two: Compute day-to-day normal rates of returns on transactions date of every sample during events periods [-2, 2], [-5, 5].

Using of the CAPM model (capital assets pricing model) to measure expected returns of shares is equivalent to additionally presenting the regressions model and uncertainties of estimating the systematic risks  $\beta$ ; the fluctuations in equity market indexes may be adopted to represent expected rate of returns.

~~The expected return rates of “i” firm for T days are defined as~~

$$\widehat{R}_{iT} = \frac{\widehat{P}_{iT} - \widehat{P}_{i,T-1}}{\widehat{P}_{i,T-1}}$$

~~where  $\widehat{P}_{iT}, \widehat{P}_{i,T-1}$  represents the closing price of the stock market index.~~

The market model may be applied to measure the expected rate of return for company “i”:

$$R_{iT} = \alpha_i + \beta_i R_{MT} + \varepsilon_{iT}$$



Due to the regressions model established on actual rate of return and market indexes rate of returns, parameter of  $\alpha_i$  and  $\beta_i$  may be assessed.  $R_{MT}$  represents the T days return rates of market (the differences between the T-1 and T return rates of market dividends is T-1 rate). The  $\varepsilon_{iT}$  is normally distributed error term.

Step ~~Four~~Three: Measure the abnormal returns for every sample by differences between normal return and actual returns.

The abnormal returns of the “i” firm for T days are defined as

$$AR_{iT} = R_{iT} - \widehat{R}_{iT}$$

Step ~~Five~~Four: Compute day-to-day average abnormal returns for entire samples throughout events periods.

The average abnormal returns for all of samples for T days are

$$AAR_T = \frac{1}{N} \sum_{i=1}^N AR_{iT}$$

Averaging abnormal returns among sample firms eliminates other factors that affect abnormal returns of M&As. Consequently, including more sample companies allows better identification of more effects on the abnormal returns of M&As.

Step ~~Six~~Five: Compute cumulative value of average abnormal returns of entire sample throughout events periods.

$$CAR_T = \sum_{i=0}^N AAR_T$$

This equation indicates general average effects of firm's transactions of sample events for whole equity return.

Step ~~Seven~~Six: Test to determine whether the CARs are affected by volatility of stock price.

To decide whether above-measured AARs and CARs are affected by cross-border M&A transactions, following stage of the study is conducting significance tests. Significant testing results indicate that volatilities in equity price while events periods were affected by several factors. The cross-border M&As transactions produce significant effects on equity prices of public companies. According to the relevant market model, one hypothesis is that the cross-border M&As transactions have no effects on share prices when the AARs and CARs follow normal distribution with the mean equal to 0.

Null hypothesis  $H_0$ :  $AAR_T = 0$ ,  $CAR_T = 0$

(t-statistics of  $t_{AAR_T}$  and  $t_{CAR_T}$  follow t-distribution degree of freedom of the N-1)

AAR<sub>T</sub> test statistics:

$$t_{AAR_T} = \frac{AAR_T}{S(AAR_T)/\sqrt{N}}$$

CAR<sub>T</sub> test statistics:

$$t_{CAR_T} = \frac{CAR_T}{S(CAR_T)/\sqrt{N}}$$

Established by upon hypothesis, AARs and CARs that are over zero and has significant testing results indicate that the information released by firm makes senses and has positive effects on trend of equity prices. AARs and CARs that are below zero indicate that M&As has negative effects on equity prices and create subtractive cumulative abnormal returns. No significant difference between zero and CARs indicates that the individual investor is not acting on the M&A or that the market is insensitive to the transaction announcements.

The methodology of event study is broadly applied to measure the effects of M&As transactions. If any other influencing factors are certified as being uninvolved, the economic effects of the M&As will be confirmed. In addition, this method is calculated directly and is easier to realize. Because of the explanations presented, trend and rapidity of prices reaction to different economic phenomena may be revised in cross-border M&As.

Nonetheless, there is a few restrictions to the event study method. First, it strongly depends on assumptions of market efficiency. This assumption is not effective in the majority of emerging markets, such as China's stock market. The time periods during which single investor respond to unpredicted event signs are general random and tough to assess. Hence, the effect that market tends to show inefficiency because of

prices may not immediately or completely reflect all public information. Second, this method only delivers assessments of the short-run effects on stocks and fail to reflect other influences, for example, level of disclosure to investor and concurrent event (Malatesta and Thompson, 1985). The concurrent event suggest that some event may occur concurrently with M&As, causing abnormal return that could not purely produced by cross-border M&As transactions. This method cannot reflect and assess probability of concurrent event. Sawyer and Gygax (2001) identified evidence that historical event may not fully explain some types of effects on cross-border M&A transactions as well.<sup>2</sup>

### **2.3.3 Empirical Analysis**

This paper focuses on what type of target may be more beneficial to Chinese listed companies when the company decides to acquire an overseas company. The paper also presents advice regarding the relative methods of selecting a target to explain whether the M&A was successful. Numerous data regarding successful and unsuccessful transactions indicate the outcome of a chosen target and what was different between transactions. The purpose of this study was to identify the target in cross-border transactions initiated by Chinese acquirers to demonstrate the relevant factors for the target chosen by analysing massive amounts of data.

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<sup>2</sup> [The result is robust by using different model, for example, Fama–French three-factor model and Fama–French five-factor model](#)

With regard to empirical analyses of whether M&As activities generate value for bidder companies' shareholder in Chinese transactions, some deviations remain. The first significant issue of these deviations is that there must be a fair benchmark with which to compare previous research. A persuasive and specific benchmark would help to resolve these differences. Specifically, the benchmark must be based on the definition of value creation and the method of measurement of shareholders' interests. By investigating many applicable empirical studies, Bruner (2002) discovered that there are three types of benchmarks: value creation, value destruction and value conservation. These findings depend on the specific factors that are the investors' required return.

The following factors may be considered to be the variables of whether transactions succeed.

#### **2.3.3.1 Financial Leverage**

Maloney et al. (1993) illustrated that a company with a higher leverage ratio may deliver good performances in takeover transactions; smaller companies have higher levels of leverage ratios than larger companies. The authors also noted that an acquirer with a higher leverage ratio is more likely to bring a higher abnormal return. However, after massive empirical testing, some studies indicated that there may be no

connections between the leverage ratio and the outcomes of acquisitions. For example, Fausto and Holger (2004) stated that there is little empirical evidence regarding relations between the outcomes of acquisitions and bidders' leverage ratios. Lang, Stulz, and Walkling (1991) concluded that a bidder's leverage ratio is negatively related to a shareholder's return of the target firm; the study considered bidders' existing leverage although there was no increasing debt to finance the transaction.

#### **2.3.3.2 Method of Payment**

In different M&As transactions, acquirers adopt different methods of payment by considering different advantages to complete the transaction. The methods include full cash payment, equity transfers, and assets stripping and assets replacement. In practice, the first 3 methods of payment are more common. This research concentrate on whether payment is made in cash because cash payments are more typical when Chinese companies engage in cross-border mergers. Larger M&As transaction activities are also quite common; Ronald and Mara (2005) claimed that financing strategy may affect the structure of ownership of the acquirer company, the financial leverage ratio, and further financial decision-making. They also noted that the acquirer selects the methods of payment, which may be affected by several factors. First, if the bidder has low liquidity, low unused borrowing capacity and fewer tangible assets but has a high leverage ratio compared with the industry average, the transaction may be intensely restrained in its use of liquid assets by cash. By

observing the effects of acquirers' financial situations, those authors determined that when bidders hold tangible assets or liquid assets, they tend to choose cash as the methods of payment, which is consistent with borrowing capacities growing with collaterals. Financially restricted bidders with a higher leverage ratio tends to use stock transfers as the methods of payment, which is consistent with the bidders who are concerned about considerably increasing the possibility of bankruptcies. Lastly, those authors determined that, as commonly anticipated, the bidder with greater total assets is more likely to adopt the cash payment, which is consistent with a great degree of diversification. Loughran and Vijh (1997) and Myers and Majluf (1984) noted that acquirers finance with stocks when the stocks is overrated and acquirers paying with cash when the stocks are undervalued.

#### **2.3.3.3 Size**

Dixon et al. (2001) stated that firm size is also an important factor of capital gain before or after acquisition announcements. Those authors determined that large firms may benefit more from M&As activities and seek these opportunities and mergers with firms whose size is equal to or even larger than their own. They also determined that smaller companies may seek opportunities with larger companies to maximize.

Campa and Kedia (2002) determined that average abnormal return of bidders, target companies, and the average of both acquirer and target weighted by quartiles of size

distribution determine the correlation between abnormal return and size of acquiring company. These scholars did not observe the significant correlation between scale of bidder companies and excess return of companies. If something, bidder companies with lower levels of markets capitalizations received higher abnormal return.

Humphery-Jenner and Powell (2014) observed correlation between bidder's size and sovereign governance. Previous studies in this field generally considered company size to be the cause of agency issue and value loss. Nevertheless, larger company size produces few off-setting benefit within weaker sovereign governance. The benefit may derive from political connections and market power. A larger scale may also enjoy more protection from the system, for example, government corruption. Those authors determined that takeovers of larger firms generated considerably higher abnormal returns following M&As announcements and tended to improve the performance of operations. They also presented evidence that some of the gains of larger firms are the result of political connections.

#### **2.3.4 Event Study**

Different research methodologies are another issue causing deviations. Earlier studies regarding the profitability of M&A activity in the banking industry normally applied two major academic research methods, accounting facts or event study. Accounting facts are more likely to be used for measuring acquirer companies' accounting



profitability and cash flow and evaluating returns on equities or assets. Overall, banking sector uses the operating cost of all employees and an efficiency ratio to measure costs and profits. These data are combined with data regarding bidder companies' accounting performance in the pre-merger period to process calculations. Finally, these accounting facts are compared with bidder companies' competitors who are not participating in the M&As activity. During the same period, if the bidder company's fundamental facts overcome its competitors, the transaction will be defined as a positive performance for the bidder company. Event study may also be applied to analysing bidder companies' equity prices movement before and after announcements date to measure gains or losses created by the transaction. If the stock price of the bidder company or target company increases after the announcement date, the transaction may be considered to have created value for bidder companies' shareholders in the short-term.

Event study is an alternative method to assist an author in research when there are obvious advantages to event study. First, selecting the benchmark is an issue. Compared with accounting facts, event study investigates abnormal return based on the stock market, which suggests that abnormal return uses the same standard. This rationale suggests that event study analyses are generally applied in the same market or index, for example, the returns of the S&P 500 or applying the capital assets pricing model. More specifically, events study is generally on account of same benchmark that would be able to remove specified industrial factors, particularly in

the banking industry (DeLong, 2001). Those factors may be noise that may affect abnormal return. Nevertheless, event study specifically avoids the limitations. Moreover, events study offers a sufficient samples size through periods of time, which fulfils the requirement for abnormal return. All of the advantages render events study studies more precise.

However, accounting facts also have several disadvantages. The most significant limitation is that different companies or banks may accept different accounting practices or standards. Occasionally, accounting practices or standards may require revision when a particular company is studied. Another disadvantage is that the disclosure of accounting facts may not be available whenever needed. Conversely, stock prices are public information in the market, information is available nearly every day except holidays, and stock prices are simple to obtain and compute. Compared with accounting facts, there is no need to wait until the company discloses information. Moreover, according to Caves (1989), event study is more precise because it is a more direct manner in which to measure shareholder return. Consequently, using event study has more competitive advantages, peculiarly when measuring shareholder return.

A positive abnormal return brings a premium to the expectation of investors that is the value created for the shareholders. Because event study is more appropriate for measuring the return for shareholders, the author examines the abnormal return

obtained from listed Chinese companies in merger transactions separate from pre-merger and post-merger periods.

#### **2.3.4.1 Abnormal returns in pre-merger**

To determine the pre-merger return, previous studies normally selected data surrounding the official transaction announcement date. The existing findings noted that the pre-merger return of an acquirer in the banking industry indicated a negative trend. An example from Houston et al. (2001) is that during the transaction announcements periods, bidder firms in banking industry regularly show a shrinking value in equity markets. According to Houston et al., most findings demonstrate that the market value of acquirer companies falls approximately 2% in the 5 working days surrounding the announcement date. The empirical evidence suggested that abnormal return is negative during the pre-merger period, leading to a decline in the value of the acquirer company. However, the empirical evidence supports a valid hypothesis. Generally, these former findings assumed that the performance of a stock price effectively reflects the expectation of M&A transactions, reflecting that the stock price is able to reflect the effect arising from the M&A activities. The findings did not explore the conclusive evidence that M&A activities create benefits for the shareholders of the acquirer company in banking sector.

#### **2.3.4.2 Abnormal returns post-merger**

Lajoux and Weston (1998) noted that the short-term abnormal return post-merger generally demonstrates positive performances and are statistically significant as well. Desai and Stover (1985) determined that in completed transactions in the banking industry, the short-term abnormal return demonstrates a positive performance, whether using daily or monthly data. James and Weir (1987) stated that the short-term abnormal return is approximately 5%. The data demonstrate that M&As activities in the banking industry create profit for the shareholders of the bidder company in the short-term.

Nevertheless, previous studies report different opinions on long-run and short-run abnormal return in banking sector during post-merger periods. Previous studies indicated that a long-term abnormal return indicates a negative performance. Hawawini and Swary (1990) and Neely (1987) noted that the abnormal return indicates a negative performance and is statistically significant in the long term. After analysing the samples of 28 major bidder companies in the banking industry, Lajoux and Weston (1998) reported that 80% of M&As transactions caused a decline in the stock prices of the bidder company. Houston, James, and Ryngaert (2001) observed data from research on the long-term abnormal return of bidders in the banking industry between 1985 and 1996; the data indicated negative results, from -4.46% to -2.61%. A bidder company in the banking industry commonly obtains a negative

abnormal returns in long-run.

Moreover, compared with an abnormal return in the short-term, the volatility of abnormal returns is greater in the long term. For example, Houston and Ryngaert (1994) considered an abnormal return of -13.70% statistically significant in the long term whereas the return was only -1.68% in the findings of DeLong (2001).

Compared with the short-term findings, the M&As transactions in the banking industry demonstrate a negative performance on abnormal return in the long term for shareholders of acquirer companies. Nevertheless, the positive abnormal return in the short term would be rejected by the negative abnormal return in the long term that suggests conflict with the profits maximization theory.

Some previous studies differ, reporting that a positive return in the long-term is possible. Cornett et al. (2002) analysed the post-mergers of 20 large banks between 1987 and 2002. There was positive performance for the return of the bidder company on equities in 3 rolling years post-merger although those data were based on accounting facts. Conversely, evidence indicates zero or a negative return in the banking industry in the short term. Nevertheless, due to diverse study methodologies, the outcomes were apparently statistically insignificant.

In Barber and Lyon (1997), Fama (1998), and Barber, Lyon, and Tsai (1999), different

study outcomes regarding post-merger performances indicated that the explanations for disagreement may be differences in time periods, statistical methodology, the size of the sample, or the effective factors in banking industry M&As. Based on these reasons, the different time period selection may be the most important factor. In particular, if takeovers occurred between 1981 and 1989, that was during a merger wave, and there were many transactions. All things being equal, the average abnormal return of the bidder company should have been greater than in the 1970s. In Gell et al. (2008), the empirical evidence indicated that those bidders who proceeded earlier in the merger wave obtained more than 50% of abnormal return for shareholders because the performance of stock prices was higher than market expectations. Conversely, bidders who proceeded with M&As transactions later in the merger wave may have to experienced less or negative abnormal returns because of overpaying on transactions.

The duration of the post-merger period may also require additional attention. Jarrell et al. (1988) emphasized that factor noise may have dramatic effects on stock prices; the post-merger return would indicate little deviation. De Pamphilis (2010) demonstrated that a longer the post-merger period may be another factor affecting the return on M&As transactions.

Summarizing the empirical evidence and the previous literature, the bidder in the banking sector tends to gain a positive abnormal return in short-run. Nevertheless, if post-merger periods are longer, abnormal return of the bidder company is more likely

to be negative.

## **2.4 Results**

Many studies explored China's growth, investments, corporate structure and the cross-border transaction returns of Chinese listed companies. The majority of relevant academic studies focused on U.S. and European transactions, for example, determining whether M&As created value for shareholders. The majority of findings concerned shareholders of target firms experiencing positive abnormal return affected by positive information or speculations. Nevertheless, results for acquirer returns were more diverse, rather depending on characteristics of transactions, such as methods of payments, size of transaction, the bidder's experiences with M&As and the duration of transaction. Travlos (1987) stated that taking stocks as method of payments results in a significant negative returns while a full cash payment generated no abnormal returns. This study fills the knowledge gap by exploring whether the theories apply to the Chinese market, the largest emerging economy and the second largest capital market.

## **2.4.1 Summary Statistics**

### **2.4.1.1 Entire Sample**

Table 2.1 indicates summary statistics for the entire sample of Chinese acquirers engaging in cross-border M&As. The table indicates the yearly transaction volume and value of the transactions. The second column compares the number of transactions financed with cash and those financed with non-cash payments. In the sample, only 37% of transactions were financed with cash, and 63% of the transactions were financed with no cash. The last column exhibits the breakdown of cumulative abnormal returns by year.

[Insert Table 2.1 here]

A distinctive component of this table is that there was a significant increase in the value of transactions and the number of transactions since 2006. Quite an active period began in 2012, and the transaction volume and the value of transactions remained high between 2013 and 2016. This trend echoed the Chinese opening-up policy, which included several supportive policies: SAFE issued offshore investment guidelines in 2009<sup>3</sup>, and the Ministry of Commerce issued an administrative approach

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<sup>3</sup> SAFE (State Administration of Foreign Exchange) issued “Regulations of Domestic Institutions Overseas Direct Investment on Foreign Exchange” on 13 July 2009.



in 2014<sup>4</sup>. These regulations guided Chinese institutions to invest in overseas markets in a regulated manner. The majority of Chinese investors chose to pay without cash. The cumulative abnormal returns performed better after 2011, and before that, the performance was negative and volatile. As for the financial crisis after 2007, the CARs performed badly with the global trend although the crisis was also an opportunity for many assets to be valued lower (Chor and Manova, 2012 and Grave et al., 2012). Chinese companies began to buy overseas assets during this period, beginning the high trading volume. In the early stage, the majority of transactions were not extremely successful although numerous mega-transactions occurred, such as in 2007, whereas they were rewarded in 2011, as the CARs showed in Table 2.1.  
The total value has declined, but the returns are significant.

#### **2.4.1.2 Transaction Distribution**

Panel A of Table 2.2 reports the numbers and proportion of transactions that Chinese acquirers conducted in the twelve major industries. The results indicated that bidding companies were generally focused on industrials, materials and high technology. Panel B of Table 4.2 reports the numbers and proportion of transactions for foreign (excluding China) targets in the twelve major industries. The results indicated that Chinese buyers prefer companies dealing in industrials, materials and financials. Panel C of Table 4.2 reports the numbers and proportion of transactions for foreign targets,

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<sup>4</sup> The Ministry of Commerce issued “Offshore Investment Management Approach” Document No.3 in 2014.

divided into four geographic areas. The results indicated that the majority of target firms were located in Asia-Pacific.

[Insert Table 2.2 here]

The major industry sector of acquirers and targets is highly matched; many transactions occurred within the same industry. Of the Asia-Pacific targets, 36% (68 transactions) were from Hong Kong. Perhaps because Hong Kong is always exposed to global investors and there is no capital monitoring, Hong Kong became the first priority platform for Chinese investors to access the global market (Zhao, 2003; Ruyi et al., 2012). European countries and the U.S. were also major destinations of Chinese buyers because of their more effective financial systems, legal protections and tax transparency, which lower the risk for international investors. (Zhang, 2017; Anderson and Sutherland, 2015) From a company perspective, E.U. and U.S. companies have better corporate governance, financial performance, complementarities and technology access in those developed markets (Kashif and Sardar, 2013; Tang, 2015).

#### **2.1.1.3 Univariate Test**

Table 2.3 presents summary statistics for the entire sample and the univariate comparison between transactions financed with cash and non-cash. In the sample, 37% of transactions were financed with cash; 63% were financed with no cash

[Insert Table 2.3 here]

Panel A of Table 2.3 shows both 5-day and 11-day abnormal returns for Chinese listed acquirer companies. The mean and median CAR [-2, 2] for transactions financed with cash was 1.22% (t=2.45) and 1.01% (t=2.19), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was -0.04% (t=-1.97) and -0.06% (t=-1.80), respectively. Transactions financed with cash outperformed transactions financed with stock by 1.26% (t=2.64) on average. Moreover, the mean and median CAR [-5, 5] for transactions financed with cash was 1.29% (t=2.97) and 1.05% (t=2.43), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was -0.03% (t=-2.60) and -0.04% (t=-2.73), respectively. Transactions financed with cash outperformed transactions financed with stock by 1.32% (t=3.70) on average.

Panel B of Table 2.3 compares acquirer characteristics for transactions financed with cash and non-cash. The panel clearly identifies the difference between those two groups of companies in financial performance for the entire sample. First, the debt levels are similar. Second, companies financed with stocks have higher ROE and ROA, which indicates a better earning capacity. Third, the companies financed with cash have higher P/E valuation in the Chinese stock market. Fourth, the companies financed with stocks have much higher EBITDA and EBITDA/shares, which means better financial and operational performance. Finally, the companies financed with

stocks have much higher total assets and sales, which means the size and business of these companies is larger. Overall, the differences in ROE, ROA, EBITDA/share and total assets are significant.

Panel C of Table 2.3 indicates transaction characteristics for transactions financed with cash and non-cash. The mean of market value for acquirer companies with transactions financed with cash is much smaller than for acquirer companies that financed transactions with stocks. The value of transactions financed with cash is significantly smaller than the value of transactions financed with stocks. The mean and median of relative size for transactions financed with cash and non-cash are 1.01 (1.00) and 1.95 (1.64), respectively. The relative size of transactions financed with cash is significantly smaller than the relative size of transactions financed with stocks. According to the comparisons of market value and transaction value, therefore, it may be concluded that smaller companies tend to acquire similar sized overseas targets by paying with cash, and larger companies tend to acquire larger overseas target by paying with stocks.

To summarize, Table 2.3 indicates that transactions financed with cash create significantly higher short-term returns; this result is consistent with the hypothesis of Chapter 2. Smaller companies have less capability to make cross-border M&A transactions, which explains why there are fewer transactions financed with cash. Larger companies have stronger financial performance and better fundamentals,

which encourage them to acquire foreign firms by paying with stock. These results are consistent with the existing literature. Emery and Switzer (1999) and Dutta et al. (2013), who also researched cross-border M&As, observed that cash offers were positively related to acquirer short-term performance. Moeller et al. (2004) observed that abnormal returns are associated with acquisitions announcement for small companies surpassed abnormal returns are associated with acquisitions announcement for large companies. Moeller et al. (2004) identified evidences that the management of large companies generally spend more on acquisitions. After monitoring for firm and transaction characteristics, those authors determined that the premium paid grows with company size. Acquiring a public firm financed with equity, a small firm would benefit considerably when it announced the acquisition. A large firm would suffer substantial shareholder losses when it announced the acquisitions of listed company regardless of how the acquisition was funded.

### **2.1.2 Regional Univariate Test**

#### **2.4.2.1 North America**

Table 2.4 demonstrates summary statistics for the entire sample and the univariate comparison between transactions financed with cash and non-cash in North America. In the sample, 37% of transactions were financed with cash; more transactions financed with no cash (63% of the sample).

[Insert Table 2.4 here]

Panel A of Table 2.4 indicates both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions financed with cash was -0.94% ( $t=-1.75$ ) and -0.98% ( $t=-1.85$ ), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was -1.01% ( $t=-1.85$ ) and -1.08% ( $t=-1.87$ ), respectively. Transactions financed with cash outperformed transactions financed with stock by 0.07% ( $t=1.97$ ) on average. Moreover, the mean and median CAR [-5, 5] for transactions financed with cash was -1.48% ( $t=-2.05$ ) and -1.48% ( $t=-2.09$ ), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was -1.62% ( $t=-2.62$ ) and -1.90% ( $t=-2.59$ ), respectively. Transactions financed with cash outperformed transactions financed with stock by 0.14% ( $t=2.22$ ) on average. However, the results indicated that cash offers outperformed stock offers in North America; the abnormal returns were all negative.

Panel B of Table 2.4 compares acquirer characteristics for transactions financed with cash and non-cash. The panel clearly shows the difference between these two groups of companies in financial performance. First, the debt levels are close. Second, the companies financed with stocks have higher ROE and ROA, which suggests better earning capacity. Third, the companies financed with cash have higher P/E valuation in the Chinese stock market. Fourth, the companies financed with stocks have much

higher EBITDA and EBITDA/shares, which suggests better financial and operational performance. Finally, the companies financed with stocks have much higher total assets and sales, which suggests that the size and business of these companies are larger. Overall, the difference in ROE, ROA, P/E, EBITDA/share total assets and sales are significant.

Panel C of Table 2.3 indicates transaction characteristics for transactions financed with cash and non-cash. The mean of market value for acquirer companies with transactions financed with cash is higher larger than for the acquirer companies that financed transactions with stocks. The value of transactions financed with cash is significantly larger than the value of transactions financed with stocks. The mean and median of relative size for transactions financed with cash and non-cash are 0.62 (0.63) and 0.70 (0.78), respectively. The relative size of transactions financed with cash is significantly larger than the relative size of transactions financed with stocks. This result is the opposite of the entire sample and different from other areas.

To summarize, Table 2.3 indicates that transactions financed with cash create higher short-term negative returns than stock offers. This result is partially consistent with the hypothesis of Chapter 2. Chinese investors demonstrated a negative propensity towards domestic companies acquiring U.S. firms.

#### 2.4.2.2 Pan-Europe

Table 2.5 demonstrates summary statistics for the entire sample and the univariate comparison between transactions financed with cash and non-cash in Pan-Europe. In the sample, 38% of transactions were financed with cash whereas more transactions were financed with no cash (62% of the sample).

[Insert Table 2.5 here]

Panel A of Table 2.5 indicates both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions financed with cash was 3.51% (t=2.60) and 3.37% (t=2.16), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was -0.28 % (t=-2.33) and -0.22% (t=-1.77), respectively. Transactions financed with cash outperformed transactions financed with stock by 3.79% (t=3.53) on average. Moreover, the mean and median CAR [-5, 5] for transactions financed with cash was 3.82% (t=2.67) and 3.37% (t=2.30), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was -0.19% (t=-2.51) and -0.17% (t=-1.84), respectively. Transactions financed with cash outperformed transactions financed with stock by 4.01% (t=3.56) on average.

Panel B of Table 2.5 compares acquirer characteristics for transactions financed with



cash and non-cash. The panel clearly presents the difference between those two groups of companies in financial performance. First, the debt levels were lower for the companies that financed transactions with cash. Second, the companies that financed with stocks had higher ROE but lower ROA, suggesting a weaker use of capital. Third, the companies that financed with cash had a much higher P/E valuation in the Chinese stock market. Fourth, the companies that financed with stocks had much higher EBITDA and close EBITDA/share, which suggests better financial and operational performance. Finally, the companies that financed with stocks had much higher total asset and sales, indicating that the size and business of these companies were larger. Overall, the differences in leverage, ROE, ROA, P/E and EBITDA/share were significant.

Panel C of Table 2.5 indicates characteristics of transactions financed with cash and non-cash. The mean of market value for acquirer companies with transactions financed with cash were much smaller than for the acquirer companies that financed transactions with stocks. The value of transactions financed with cash was significantly smaller than the value of transactions financed with stocks. The mean and median of relative size for transactions financed with cash and non-cash were 1.10 (1.10) and 3.17 (2.59), respectively. The relative size of transactions financed with cash was significantly smaller than the relative size of transactions financed with stocks. According to the comparisons of market value and transaction value, therefore, it may be concluded that smaller companies tend to acquire similar size overseas target

companies by paying with cash, and larger companies tend to acquire larger overseas targets by paying with stocks.

To summarize, Table 2.5 indicates that transactions financed with cash create significantly higher short-term returns. This result is consistent with the hypothesis of Chapter 2. In fact, these transactions were conducted with smaller companies that had less capability to make cross-border M&As transactions, which explains why there were fewer transactions financed with cash. Larger companies demonstrated a stronger financial performance and better fundamentals, which encouraged them to acquire foreign firms with stock. The results identified in-Pan-Europe are consistent with the findings of the entire sample.

#### **2.4.2.3 Asia-Pacific**

Table 2.6 demonstrates summary statistics for the entire sample and the univariate comparison between transactions financed with cash and non-cash in Pan-Europe. In the sample, 40% of transactions were financed with cash whereas more transactions (60% of the sample) were financed with no cash.

[Insert Table 2.6 here]

Panel A of Table 2.6 indicates both 5-day and 11-day abnormal returns for listed

Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions financed with cash was 0.45% (t=1.88) and 0.37% (t=1.86), respectively; the mean and median CAR [-2, 2] for transactions financed with stock were 0.29% (t=1.78) and 0.27% (t=1.63), respectively. Transactions financed with cash slightly outperformed transactions financed with stock by 0.16% (t=1.98) on average. Moreover, the mean and median CAR [-5, 5] for transactions financed with cash was 0.62% (t=2.26) and 0.52% (t=1.92), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was 0.40% (t=1.82) and 0.39% (t=1.78), respectively. Transactions financed with cash slightly outperformed transactions financed with stock by 0.22% (t=2.01) on average.

Panel B of Table 2.6 compares acquirer characteristics for transactions financed with cash and non-cash. The table clearly identifies the difference between those two types of the companies in financial performance. First, the debt levels were lower for the companies that financed transactions with cash. Second, the companies that financed with stocks had higher ROE but lower ROA, which is consistent with the Pan-European area. Third, the companies that financed with cash had a much higher P/E valuation in the Chinese stock market. Fourth, the companies that financed with stocks had much higher EBITDA and close EBITDA/share, indicating better financial and operational performance. Finally, the companies that financed with cash had much higher total assets but lower sales, suggesting a larger size but weaker market power. Overall, the differences among ROE, ROA, EBITDA/share, total asset and

sales were significant.

Panel C of Table 2.6 presents transaction characteristics for transactions financed with cash and non-cash. The mean of market value for acquirer companies with transactions financed with cash was slightly higher than for the acquirer companies that financed transactions with stocks. The value of transactions financed with cash was slightly higher than the value of transactions financed with stocks. The mean and median of relative size for transactions financed with cash and non-cash were 1.47 (1.30) and 1.48 (1.75), respectively. The relative size of transactions financed with cash and transactions financed with stocks were close and lower. According to the comparisons of market value and transaction value, it may be concluded that Chinese listed companies tend to acquire similar sized foreign targets in Asia-Pacific.

In summary, Table 2.6 shows that transactions financed with cash created slightly higher short-term returns; this result is basically consistent with the hypothesis of Chapter 2. Because the majority of transactions occurred in the Hong Kong market, investors did not expect a significant effect on this type of “cross-border” M&As activity. The results concerning Asia-Pacific were generally consistent with the findings of the entire sample.

#### 2.1.1.4 Other Countries

Table 2.7 presents summary statistics for the entire sample and the univariate comparison between transactions financed with cash and non-cash in Pan-Europe. In the sample, 23% of transactions were financed with cash; however, more transactions (77% of the sample) were financed with no cash.

[Insert Table 2.7 here]

Panel A of Table 2.7 presents both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions financed with cash was 3.09% (t=2.51) and 3.04% (t=2.46), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was 1.46 % (t=1.82) and 1.56% (t=1.79), respectively. Transactions financed with cash outperformed transactions financed with stock by 1.64% (t=2.27) on average. The mean and median CAR [-5, 5] for transactions financed with cash was 3.39% (t=2.76) and 3.19% (t=2.56), respectively; the mean and median CAR [-2, 2] for transactions financed with stock was 2.17% (t=2.35) and 2.01% (t=2.29), respectively. Transactions financed with cash outperformed transactions financed with stock by 1.22% (t=2.18) on average.

Panel B of Table 2.7 compares acquirer characteristics for transactions financed with cash and non-cash. The panel clearly identifies the differences in financial

performance between these two groups of companies. First, the debt levels were slightly higher for the companies that financed transactions with cash. Second, the companies that financed with cash had lower ROE and ROA, suggesting a less efficient use of capital. Third, the companies that financed with stock had a much higher P/E valuation in the Chinese stock market. Fourth, the companies that financed with stocks had much higher EBITDA and close EBITDA/share, suggesting better financial and operational performance. Finally, the companies that financed with stocks had much higher sales but lower total assets. Considering the higher ROE and ROA, these companies had a higher quality of business. Overall, the differences in leverage, ROE, ROA, P/E and EBITDA/share were significant.

Panel C of Table 2.7 presents transaction characteristics for transactions financed with cash and non-cash. The mean of market value for acquirer companies with transactions financed with cash was much smaller than for the acquirer companies that financed transactions with stocks. The value of transactions financed with cash was significantly smaller than the value of transactions financed with stocks. The mean and median of the relative size of transactions financed with cash and non-cash were 1.23 (1.08) and 2.10 (1.95), respectively. The relative size of transactions financed with cash was significantly smaller than the relative size of transactions financed with stocks. According to the comparisons of market value and transaction value, it may be concluded that smaller companies tended to acquire similar sized overseas targets by paying with cash and larger companies tended to acquire larger overseas targets by

paying with stocks in other countries' markets.

To summarize, Table 2.7 indicates that transactions financed with cash created significantly higher short-term returns. This result is generally consistent with the hypothesis of Chapter 2. These smaller companies tended to acquire similar sized targets paying with cash. Larger companies tended to acquire larger targets paying with stocks. The results are consistent with the findings of the entire sample, Europe and Asia-Pacific. It appears that in the U.S. market, it is more difficult to achieve abnormal returns for cross-border transactions, and the investor structure is also different.

The difference between each of regions above could be broadly explained by several point. For North American market, the returns are even negative, due to the difficulty of investment in the U.S. In US market, different state follows separate state law. And the CFIUS (the committee on foreign investment in the United States) is very careful on overseas investments scrutiny in different situation, this could cause Chinese bidders to avoid sensitive target firms and to adopt JV/SPV deal structures in MANY situations. Due to the barriers and difficulties, the Chinese bidder normally did not received sufficient gains from market. Therefore, European market would become the second best choice, because of developed market and good quality of assets. And the most of European countries are loose to overseas investors, the completion of deals are also more comparing with North American market. In Asia-Pacific market, the

most of deals are traded between mainland of China and HK market, this normally only causes capital synergy, because mainland of China and HK are basically same market. The reflection of investors is more likely neutral. As for the other countries, the deals are very few, the result did not represent too much significance.

### **2.1.3 Regression Analysis**

Table 2.8 illustrates the results of the short-term regression analysis. The dependent variables were the CAR [-2, 2] and CAR [-5, 5] of a Chinese public bidding company. The key explanatory variable was method of payment: which group in the sample financed transactions fully or primarily with cash and which were financed without any cash.

[Insert Table 2.8 here]

The CAR [-2, 2] and CAR [-5, 5] indicated that cash payments were significantly positive, approximately 0.29% and 0.36% each, over the entire sample. This suggests that there is the positive relation between markets response before and after an acquisition announcement and transactions financed with cash. There are, however, control variables as listed in Table 2.8, including target nations, acquirer financial performance and different target industries. The results also indicated that when targets were from developed countries or belong to the financial, energy, technology



and retail industries, the CAR was significantly positive. The results were also significantly negative when the acquirer had a high leverage ratio, high return on equity and high market value. This indicates that smaller firms perform better when conducting transactions in cash although more companies prefer to use stock to finance transactions. This also echoes Hypothesis 1 of this chapter. This result is consistent with Emery and Switzer (1999) and Dutta et al. (2013), who also researched cross-border M&As. Da Silva Rosa et al. (2004) also observed similar results on bidding for private firms, which is consistent with the findings in Chapter 2. Because of the restrictions and structure of financial markets in China, stock payment may create more problems because of the large number of individual investors and volatility of Chinese stock markets. Companies with the ability to engage in cross-border M&As generally are able to pay with sufficient cash.

## **2.5 Conclusion**

In summary, this chapter reviewed the existing literature and identified some empirical evidence regarding cross-border M&As of listed Chinese companies. Chinese public companies were rewarded higher returns when they financed transactions with cash. Previous studies indicated that M&As transactions generated more return for bidder firms when the transactions were financed with stock. This dissertation identified little evidence of the opposite result. The majority of research has been completed for over a decade. The Chinese cross-border M&A market

became more active only after 2007. Therefore, the essential point of this thesis may be updating the empirical research and evidence to investigate the current validity. In addition, this dissertation is more specific to the Chinese M&As market, which is the most active emerging market globally. This paper explored the empirical evidence to examine principles and theories. Because of the investor structure differences in China, over 90% of investors are individuals, which cause more volatility.

The above results may demonstrate that cross-border transactions financed with cash bring higher premiums to their Chinese bidder companies because stock market investors strongly believe that bidder companies have good cash flow. The executive management and financial status demand a strong performance. The Chinese government also encourages local companies going abroad to expand techniques and resources. In the regional analysis, only the U.S. market created a negative return for the Chinese buyer whereas Europe and other countries rewarded China with positive and high returns. Most transactions occurred within the Asia-Pacific; however, the returns on transactions financed with cash or stock were not remarkable.

There has been little research on methods of payment in M&As transactions; details of the transactions tend to be extremely confidential. It may also be difficult for data collection to reflect all related factors, which is why this author chose to focus on listed companies. Although more than 60% of transactions were financed with stock, this author attempted to demonstrate that cash may be a better option with which to

complete a transaction and attempted to identify Chinese evidence in this field.

Nevertheless, as stated above, access of information and data collection remain difficult, and observations in this area are incomplete. In the Chinese cross-border M&As market, more than half of deals were traded by private companies, whose investor information is also confidential. Moreover, long-term validity requires measurement and observation.

The hypotheses were all validated, and the empirical results indicated that the hypotheses are quite significant. The significant empirical results explain the practices, and effective findings also support this topic. This author selected the event study method to observe and gather abnormal returns in both the pre- and post-period of a M&As announcement. Moreover, time frames also significantly affected the results. The author selected the longer time period to better explain the results and improve accuracy. The author will continue to work in the institutional investment field and will thus be able to access more confidential information. Additional years of working experience will provide more comprehensive and underlying information to develop the theory and conduct an empirical analysis.

## Tables

**Table 2.1 Summary Statistics for the Entire Sample**

This table summarizes the primary characteristics of merger transactions in the entire sample of Chinese acquirers. The sample comprised 465 completed or uncompleted M&As transactions in the cross-border market from 2002 to 2016 in which all acquirers were listed companies in the Shanghai and Shenzhen Stock Exchanges and all targets were worldwide companies (excluding China), either public or private. The first column lists the number of transactions announced year by year from 2002 to 2016. The second column lists the total value of the transactions by year from 2002 to 2016 in USD millions. The third column categorizes merger activities according to the method of payment; cash payment refers to transactions that were 100% financed with cash or primarily traded in cash. Non-cash payment refers to transactions that were completed with no cash financing. The fourth column reports the results of the OLS regressions of the acquirer's short-term performance for the entire sample year by year. The sample included all M&A cross-border transactions in which the acquirers were listed companies in the Chinese market from the Thomson One Banker (SDC) transactions database during 2002 to 2016. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistics.

Full		Total	Method of Payment		CARs			
Year	All Sample	Value of Transaction (\$mil.)	Cash Payment	Non-cash payment	CAR [-2, 2]		CAR [-5, 5]	
					Mean	t-value	Mean	t-value
2002	5	394.00	0	5	0.0610	(1.40)	0.0730*	(1.81)
2003	4	227.98	0	4	0.0154*	(1.78)	0.0393**	(2.36)
2004	7	80.66	1	6	-0.0211	(-1.10)	-0.0222	(-1.89)
2005	5	54.35	0	5	-0.0079	(-1.22)	-0.0109	(-1.25)
2006	10	4,497.08	2	8	0.0182*	(1.81)	0.0423***	(2.63)
2007	23	10,288.30	5	18	-0.0546***	(-2.47)	-0.1104**	(-2.02)
2008	34	4,639.58	7	27	-0.0637***	(-2.48)	-0.0746**	(-2.02)
2009	29	3,044.09	7	22	0.0163***	(2.68)	0.0941***	(2.88)
2010	37	5,461.94	12	25	-0.0161	(-1.40)	-0.0172	(-1.47)
2011	33	1,282.28	11	22	0.0240***	(2.51)	0.0262***	(2.51)
2012	46	2,908.47	14	32	0.0252***	(2.29)	0.0261***	(2.98)
2013	47	6,622.70	15	32	0.0455***	(2.74)	0.0635***	(2.78)
2014	40	6,579.51	17	23	0.0169*	(1.89)	0.0632**	(2.28)
2015	80	6,349.93	48	32	0.0111	(1.01)	0.0116	(1.64)
2016	65	4,792.63	33	32	0.0121	(1.17)	0.0183	(1.62)
SUM	465	57,223.48	172	293				

### **Table 2.2 Summary Statistics for the Acquirer and Target Sectors and Regions**

Panel A reports the number and proportion of acquirers in 12 industry sectors. Panel B reports the number and proportion of targets in 12 industry sectors. Panel C reports the number and proportion of targets in 4 regional distributions. The region of North America is a continent entirely within the Northern Hemisphere and nearly entirely within the Western Hemisphere. The region of Pan-Europe is a continent that comprises the westernmost portion of Eurasia. Europe is bordered by the Arctic Ocean to the north, the Atlantic Ocean to the west, and the Mediterranean Sea to the south and includes Russia. The region of Asia-Pacific is the portion of the world in or near the Western Pacific Ocean. It typically includes much of East Asia, South Asia, Southeast Asia, and Australasia. The region of other countries includes countries worldwide but not in North America, Pan-Europe or Asia-Pacific. For a list of the countries involved with the sample, please see Appendix 2.2.

<b>Panel A</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Acquirer Industry Sector</b>
21	4.52%	Consumer Products and Services
45	9.68%	Energy and Power
49	10.54%	Financials
22	4.73%	Healthcare
63	13.55%	High Technology
112	24.09%	Industrials
81	17.42%	Materials
8	1.72%	Media and Entertainment
7	1.51%	Real Estate
7	1.51%	Retail
37	7.96%	Consumer Staples
13	2.80%	Telecommunications
<b>465</b>	<b>100.00%</b>	
<b>Panel B</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Target Industry Sector</b>
28	6.02%	Consumer Products and Services
44	9.46%	Energy and Power
72	15.48%	Financials
26	5.59%	Healthcare
59	12.69%	High Technology
92	19.78%	Industrials
77	16.56%	Materials
7	1.51%	Media and Entertainment
3	0.65%	Real Estate
10	2.15%	Retail
31	6.67%	Consumer Staples
16	3.44%	Telecommunications
<b>465</b>	<b>100.00%</b>	
<b>Panel C</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Target Nation</b>
101	21.72%	North America
136	29.25%	Pan Europe
189	40.65%	Asia-Pacific
39	8.39%	Others
<b>465</b>	<b>100.00%</b>	

### **Table 2.3 Summary Statistics for the All Sample of Transactions Financed with Cash and Other Method of Payment**

This table presents summary statistics for the entire sample of all countries targeting cross-border transactions; the transactions were financed with cash and non-cash. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.



All Countries	All Deals			Cash (C)			Non-cash Payment (N)			Difference (C) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	0.42% *** (2.34)	0.33% ** (2.16)	465	1.22% *** (2.45)	1.01% ** (2.19)	172	-0.04% * (-1.97)	-0.06% * (-1.80)	293	1.26% ***	(2.64)	1.07% **	(2.24)
<b>CAR [-5, 5]</b>	0.46% *** (2.41)	0.32% ** (2.31)	465	1.29% *** (2.97)	1.05% *** (2.43)	172	-0.03% *** (-2.60)	-0.04% *** (-2.73)	293	1.32% ***	(3.70)	1.09% ***	(2.62)
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	48.54	47.89	465	45.44	45.76	172	50.35	50.22	293	-4.91	(1.58)	-4.47	(1.67)
<b>ROE</b>	12.95	11.75	465	12.81	10.75	172	13.04	12.40	293	-0.23*	(1.93)	-1.65*	(1.81)
<b>ROA</b>	7.92	7.00	465	7.85	6.65	172	7.96	7.42	293	-0.12**	(2.18)	-0.77*	(1.94)
<b>P/E</b>	41.23	32.06	465	42.29	37.31	172	40.61	28.52	293	1.68	(1.63)	8.78	(1.65)
<b>EBITDA (\$Mil.)</b>	46.39	30.45	465	28.66	27.20	172	56.81	57.64	293	-28.15	(1.53)	-30.44	(1.15)
<b>EBITDA/share</b>	0.87	0.67	465	0.81	0.56	172	0.91	0.68	293	-0.10*	(1.75)	-0.12**	(2.01)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	606.10	147.27	465	372.81	352.04	172	743.05	733.45	293	-370.24**	(1.99)	-381.41*	(1.75)
<b>Transaction Value (\$Mil.)</b>	145.04	151.86	465	144.44	136.56	172	145.39	215.46	293	-0.96	(1.69)	-78.90	(1.65)
<b>Relative Size</b>	1.60	1.32	465	1.01	1.00	172	1.95	1.64	293	-0.95**	(2.19)	-0.64***	(2.41)

### **Table 2.4. Summary Statistics for the North American Sample of Transactions Financed with Cash and Other Methods of Payment**

This table presents summary statistics for the entire sample of North American targeting cross-border transactions; the transactions were financed with cash and non-cash. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

North America	All Deals			Cash (C)			Non-cash Payment (N)			Difference (C) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	-0.99%*	-1.06%*	101	-0.94%*	-0.98%*	37	-1.01%*	-1.08%*	64	0.07%*	(1.97)	0.10%*	(1.91)
	(-1.77)	(-1.95)		(-1.75)	(-1.85)		(-1.85)	(-1.87)					
<b>CAR [-5, 5]</b>	-1.57%*	-1.78%**	101	-1.48%*	-1.48%*	37	-1.62%***	-1.90%**	64	0.14%**	(2.22)	0.42%***	(2.37)
	(-1.84)	(-2.18)		(-2.05)	(-2.09)		(-2.62)	(-2.59)					
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	41.25	44.95	101	37.60	45.67	37	43.35	43.99	64	-5.75	(1.73)	1.68*	(1.75)
<b>ROE</b>	11.63	10.84	101	10.43	10.64	37	12.32	11.60	64	-1.90*	(1.85)	-0.96*	(1.79)
<b>ROA</b>	7.89	6.75	101	8.18	6.74	37	7.73	6.91	64	0.45**	(2.24)	-0.17*	(1.77)
<b>P/E</b>	63.83	38.75	101	76.48	49.04	37	56.51	34.04	64	19.98*	(1.97)	14.99*	(1.95)
<b>EBITDA (\$Mil.)</b>	14.94	14.04	101	18.50	12.95	37	12.88	14.39	64	5.62	(1.57)	-1.44	(1.73)
<b>EBITDA/share</b>	0.73	0.63	101	0.66	0.50	37	0.77	0.65	64	-0.11*	(1.92)	-0.15**	(2.21)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	182.15	150.17	101	257.48	254.34	37	138.60	146.65	64	118.88***	(2.93)	107.69*	(1.83)
<b>Transaction Value (\$Mil.)</b>	101.70	104.00	101	171.14	120.20	37	61.55	51.10	64	109.59	(1.64)	69.10	(1.85)
<b>Relative Size</b>	0.67	0.69	101	0.62	0.63	37	0.70	0.78	64	-0.08**	(2.19)	-0.15***	(2.41)

**Table 2.5. Summary Statistics for the Pan-European Sample of Transactions Financed with Cash and Other Methods of Payment**

This table presents summary statistics for the entire sample of Pan-European targeting cross-border transactions; the transactions were financed with cash and non-cash. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

Pan Europe	All Deals			Cash (C)			Non-cash Payment (N)			Difference (C) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	1.17%*** (2.44)	0.80%** (2.22)	136	3.51%*** (2.60)	3.37%** (2.16)	52	-0.28%** (-2.33)	-0.22%* (-1.77)	84	3.79%***	(3.53)	3.59%**	(1.99)
<b>CAR [-5, 5]</b>	1.34%*** (2.53)	0.88%** (2.32)	136	3.82%*** (2.67)	3.37%** (2.30)	52	-0.19%*** (-2.51)	-0.17%* (-1.84)	84	4.01%***	(3.56)	3.54%**	(2.03)
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	49.07	49.93	136	44.50	41.29	52	51.90	54.58	84	-7.40*	(1.75)	-13.30*	(1.84)
<b>ROE</b>	14.23	12.56	136	14.32	12.33	52	14.17	13.80	84	0.15**	(1.99)	-1.48***	(2.50)
<b>ROA</b>	8.46	7.70	136	9.01	7.76	52	8.12	7.00	84	0.89*	(1.82)	0.76*	(1.76)
<b>P/E</b>	38.39	29.23	136	39.83	37.31	52	37.50	25.97	84	2.32*	(1.83)	11.34*	(1.76)
<b>EBITDA (\$Mil.)</b>	93.59	72.37	136	26.18	22.91	52	135.31	123.56	84	-109.13	(1.69)	-100.66	(1.32)
<b>EBITDA/share</b>	0.97	0.62	136	1.02	0.61	52	0.94	0.62	84	0.08**	(2.07)	-0.01	(1.51)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	1,291.51	633.90	136	285.97	133.31	52	1,913.99	735.73	84	-1628.02	(1.66)	-602.42*	(-1.84)
<b>Transaction Value (\$Mil.)</b>	259.05	119.63	136	159.43	155.26	52	320.72	324.10	84	-161.29	(1.59)	-168.84*	(-1.87)
<b>Relative Size</b>	2.38	1.87	136	1.10	1.10	52	3.17	2.59	84	-2.07**	(2.11)	-1.50***	(-2.41)

### **Table 2.6. Summary Statistics for the Asia-Pacific Sample of Transactions Financed with Cash and Other Methods of Payment**

This table presents summary statistics for the entire sample of Asia-Pacific targeting cross-border transactions; the transactions were financed with cash and non-cash. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

Asia-Pacific	All Deals			Cash (C)			Non-cash Payment (N)			Difference (C) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	0.35%** (2.08)	0.26%* (1.79)	189	0.45%* (1.88)	0.37%* (1.86)	75	0.29%* (1.78)	0.27% (1.63)	114	0.16%* (1.98)		0.11%** (2.00)	
<b>CAR [-5, 5]</b>	0.49%** (2.24)	0.42%** (2.13)	189	0.62%** (2.26)	0.52%* (1.92)	75	0.40%* (1.82)	0.39%* (1.78)	114	0.22%** (2.01)		0.12%* (1.82)	
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	51.39	49.60	189	49.00	46.08	75	52.97	52.71	114	-3.97	(1.72)	-6.62* (1.79)	
<b>ROE</b>	12.51	12.48	189	13.20	11.15	75	12.05	13.08	114	1.15**	(2.15)	-1.93 (1.57)	
<b>ROA</b>	7.35	6.54	189	7.18	5.87	75	7.46	6.81	114	-0.28**	(2.13)	-0.94*** (2.53)	
<b>P/E</b>	35.61	27.42	189	50.70	34.79	75	25.68	26.17	114	25.02	(1.51)	8.62 (1.72)	
<b>EBITDA (\$Mil.)</b>	38.42	33.93	189	45.25	2.83	75	33.92	3.15	114	11.33*	(1.83)	-0.32 (1.45)	
<b>EBITDA/share</b>	0.86	0.68	189	0.78	0.53	75	0.92	0.74	114	-0.14*	(1.89)	-0.20* (1.93)	
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	458.77	245.46	189	489.57	155.65	75	438.50	140.77	114	51.06*	(1.76)	14.88 (1.56)	
<b>Transaction Value (\$Mil.)</b>	112.41	74.45	189	124.53	113.75	75	104.44	94.45	114	20.09**	(2.04)	19.29 (1.61)	
<b>Relative Size</b>	1.48	1.63	189	1.47	1.30	75	1.48	1.75	114	-0.01*	(1.92)	-0.45*** (-2.41)	

**Table 2.7. Summary Statistics for the Other Countries Sample of Transactions Financed with Cash and Other Methods of Payment**

This table presents summary statistics for the entire sample of Other Countries targeting cross-border transactions; the transactions were financed with cash and non-cash. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.



Other Countries	All Deals			Cash (C)			Non-cash Payment (N)			Difference (C) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	1.83%*** (2.55)	1.66%** (2.05)	39	3.09%*** (2.51)	3.04%*** (2.46)	9	1.46%* (1.82)	1.56%* (1.79)	30	1.64%**	(2.27)	1.48%**	(2.25)
<b>CAR [-5, 5]</b>	2.45%*** (2.99)	1.88%** (2.10)	39	3.39%*** (2.76)	3.19%*** (2.56)	9	2.17%*** (2.35)	2.01%** (2.29)	30	1.22%**	(2.18)	1.18%**	(2.12)
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	51.72	51.35	39	54.39	58.19	9	50.91	51.35	30	3.47**	(2.21)	6.84***	(2.65)
<b>ROE</b>	14.10	12.77	39	10.82	9.97	9	15.08	13.19	30	-4.25*	(1.77)	-3.21*	(1.92)
<b>ROA</b>	8.86	8.53	39	4.01	3.80	9	10.31	9.68	30	-6.30*	(1.91)	-5.88*	(1.93)
<b>P/E</b>	19.89	16.05	39	12.23	16.05	9	22.19	16.51	30	-9.96	(1.52)	-0.46*	(1.85)
<b>EBITDA (\$Mil.)</b>	1.94	1.75	39	3.15	2.62	9	1.57	1.54	30	1.58*	(1.78)	1.07	(1.16)
<b>EBITDA/share</b>	0.94	0.73	39	0.45	0.53	9	1.09	1.17	30	-0.64	(1.54)	-0.65	(1.52)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	27.84	16.39	39	51.21	36.47	9	20.83	13.40	30	30.38	(1.72)	23.07**	(-2.12)
<b>Transaction Value (\$Mil.)</b>	17.81	13.17	39	31.73	29.58	9	13.64	10.76	30	18.09	(1.71)	18.82**	(-2.05)
<b>Relative Size</b>	1.90	1.79	39	1.23	1.08	9	2.10	1.95	30	-0.87*	(1.82)	-0.88***	(-2.41)

**Table 2.8 OLS Regressions of Acquirer Short-Term Performance**

This table presents results of OLS regressions of the acquirer short-term performance for the entire sample. In these models, this chapter regressed acquirer CAR [-2, 2] and CAR [-5, 5] against a number of explanatory variables. The key explanatory variable was method of payment (cash). The cash dummy variable equals 1 if the transaction was fully financed with cash; the dummy variable equals 0 if the transaction was not fully financed with cash. For transaction characteristics, other control variables include diversification and nation. The diversification variable equals 1 if the acquirer and target were classified as being in the same industry; the dummy variable equals 0 if the acquirer and target are not classified as being in the same industry. The nation variable equals 1 if the target is from a developed market; the dummy variable equals 0 if the target is from an emerging market. For firm characteristics, other control variables include the proportion of top 10 shareholders and the proportion of largest shareholder. Leverage is measured as total debt over total capital at fiscal year-end before the announcement. ROE is measured as return on equity at t fiscal year end before the announcement. P/E is measured as price to earnings ratio at fiscal year-end before the announcement. LnSize is the natural logarithm of the market value of equity measured at fiscal year-end before the announcement. LnAsset is the natural logarithm of total assets measured at fiscal year-end before the announcement. LnSales is the natural logarithm of total sales measured at fiscal year-end before the announcement. For industry sector characteristics, other control variables included 12 different industries. Industry1 dummy equals 1 if the bidding firm was classified in the sector of Financials. Industry2 dummy equals 1 if the bidding firm was classified in the sector of Consumer Products and Services. Industry3 dummy equals 1 if the bidding firm was classified in the sector of Consumer Staples. Industry4 dummy equals 1 if the bidding firm was classified in the sector of Energy and Power. Industry5 dummy equals 1 if the bidding firm was classified in the sector of Healthcare. Industry6 dummy equals 1 if the bidding firm was classified in the sector of High Technology. Industry7 dummy equals 1 if the bidding firm was classified in the sector of Industrials. Industry8 dummy equals 1 if the bidding firm was classified in the sector of Materials. Industry9 dummy equals 1 if the bidding firm was classified as the sector of Media and Entertainment. Industry10 dummy equals 1 if the bidding firm was classified in the sector of Real Estate. Industry11 dummy equals 1 if the bidding firm was classified in the sector of Retail. Industry12 dummy equals 1 if the bidding firm was classified in the sector of Telecommunications. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

	CAR [-2, 2]	CAR [-5, 5]
<b>Cash</b>	0.2948*** (2.39)	0.3556*** (2.60)
<b>Diversification</b>	-0.0402 (-1.09)	-0.0686 (-1.14)
<b>Nation</b>	0.2496** (2.03)	0.2667** (2.32)
<b>Top 10</b>	0.1798 (1.73)	0.1877* (1.77)
<b>Top 1</b>	0.0766 (1.04)	0.0817 (1.15)
<b>Leverage</b>	-0.1912** (-2.30)	-0.2110** (-2.33)
<b>ROE</b>	-0.1806* (-1.98)	-0.2278*** (-2.66)
<b>PE</b>	0.0625 (1.06)	0.0738 (1.13)
<b>LnSize</b>	-0.1943** (-2.27)	-0.2032*** (-2.41)
<b>LnAsset</b>	0.1884* (1.83)	0.1966* (1.97)
<b>LnSales</b>	0.1898* (1.93)	0.1993** (2.02)
<b>Industry1</b>	0.1981** (2.07)	0.2532*** (2.75)
<b>Industry2</b>	0.1289 (1.37)	0.1503 (1.51)
<b>Industry3</b>	0.1236 (1.58)	0.1334 (1.71)
<b>Industry4</b>	0.1882** (2.15)	0.1919*** (2.53)
<b>Industry5</b>	0.1384 (1.59)	0.1538 (1.61)
<b>Industry6</b>	0.1915** (2.05)	0.2020*** (2.37)
<b>Industry7</b>	0.1106 (1.29)	0.1232 (1.37)
<b>Industry8</b>	0.1301 (1.47)	0.1307 (1.52)
<b>Industry9</b>	0.1103 (1.27)	0.1179 (1.33)
<b>Industry10</b>	0.1718	0.1756

	(1.62)	(1.71)
<b>Industry11</b>	0.1928**	0.1996**
	(2.25)	(2.29)
<b>Industry12</b>	0.1373	0.1377
	(1.39)	(1.41)
<b>Constant</b>	0.1987	0.2303
	(2.11)	(2.54)
<hr/>		
<b>N</b>	465	465
<b>R Square</b>	0.162	0.220
<b>Adjusted R Square</b>	0.133	0.183
<hr/>		

## Appendices

### Appendix 2.1. Definition of Control Variables

The table below defines control variables in the regressions of the chapter. The definition of each variable is presented in the table. Panels A, B and C present transaction characteristics, company characteristics and industry sectors, respectively.

Variable	Definition
Panel A: Transaction Characteristics	
Cash	Dummy variable equals 1 if the deal is fully paid by cash; dummy variable equals 0 if the deal is not fully paid by cash.
Diversification	Dummy variable equals 1 if the acquirer and target are classified as the same industry; dummy variable equals 0 if the acquirer and target are not classified as the same industry.
Nation	Dummy variable equals 1 if the target is from developed market; dummy variable equals 0 if the target is from emerging market.
Panel B: Company Characteristics	
Top 10	The proportion of top 10 shareholders.
Top 1	The proportion of largest shareholder.
Leverage	Total debt over total capital.
ROE	Return on equity.
PE	Price to Earnings
Lnsize	The logarithm of the acquirer market value at the fiscal year end before the announcement.
Lnasset	The logarithm of the acquirer total asset at the fiscal year end before the announcement.
Lnsales	The logarithm of the acquirer sales revenue at the fiscal year end before the announcement.
Panel C: Industry Sector	

Industry 1	The acquirer is classified by Financials (FINANCE).
Industry 2	The acquirer is classified by Consumer Products and Services (CPS).
Industry 3	The acquirer is classified by Consumer Staples (STAPLES).
Industry 4	The acquirer is classified by Energy and Power (ENERGY).
Industry 5	The acquirer is classified by Healthcare (HEALTH).
Industry 6	The acquirer is classified by High Technology (HT).
Industry 7	The acquirer is classified by Industrials (IND).
Industry 8	The acquirer is classified by Materials (MATERLS).
Industry 9	The acquirer is classified by Media and Entertainment (MEDIA).
Industry 10	The acquirer is classified by Real Estate (REALEST).
Industry 11	The acquirer is classified by Retail (RETAIL).
Industry 12	The acquirer is classified by Telecommunications (TELECOM).

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## Appendix 2.2. Definition of Regions of Entire Sample

The region of North America is a continent entirely within the Northern Hemisphere and nearly completely within the Western Hemisphere. The Region of Pan-Europe is a continent that comprises the westernmost portion of Eurasia. Europe is bordered by the Arctic Ocean to the north, the Atlantic Ocean to the west, and the Mediterranean Sea to the south and includes Russia. The region of Asia-Pacific is the portion of the world in or near the Western Pacific Ocean. It typically includes much of East Asia, South Asia, Southeast Asia, and Australasia. The region of other countries is countries worldwide but not in North America, Pan-Europe and Asia-Pacific. The group of countries is the sample of transactions where the target firms are located.

Target Nation	Group of Countries
North America	British Virgin, Canada, Cayman Islands, Dominican Rep, United States
Pan Europe	Austria, Belarus, Belgium, Cyprus, Czech Republic, Denmark, France, Germany, Hungary, Ireland-Rep, Italy, Lithuania, Netherlands, Norway, Poland, Portugal, Russian Fed, Serbia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom
Asia-Pacific	Australia, Cambodia, Hong Kong, India, Indonesia, Japan, Laos, Macau, Malaysia, Mongolia, New Zealand, Singapore, South Korea, Taiwan, Thailand, Vietnam

**Others**

Argentina, Brazil, Chad, Chile, Colombia, Dem Rep Congo, Gabon, Iran, Iraq, Israel, Jamaica, Kazakhstan, Kyrgyzstan, Lesotho, Mozambique, Nigeria, Oman, Pakistan, Peru, Philippines, Qatar, Saudi Arabia, South Africa, Tajikistan, Uganda, Uzbekistan

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### **3. Chapter III: The Target Selection of Chinese Company Cross-border Takeovers**

#### **3.1 Introduction**

This chapter investigates listed Chinese companies acquiring overseas companies. The control variable is the public status of the target firms. In the Chinese M&As market, more companies chose to acquire foreign private companies than publicly listed companies.

Fuller et al. (2002) presented samples of companies that made over five acquisitions during 1990s. They observed that abnormal return was greater when companies acquired private firm or subsidiary rather than when companies acquired public company. Chang (1998) tested the returns of privately owned acquiring firms when takeover proposals were announced. Acquiring firms were observed to obtain positive abnormal returns on stock offers. Conversely, bidders mostly received abnormally negative returns when acquiring public targets. Bidders did not receive abnormally positive returns in cash transactions. Chang believed that the observed positive wealth effects were associated with monitoring activities by shareholders of the targeted firms, resulting in reduced information asymmetries.

Officer (2007) studied the average acquisition discounts for independent private firms and unlisted target firms, such as subsidiaries, which had 15% to 30% acquisition multiples relative to similar publicly traded targets. Officer observed that the bidders' prices for unlisted targets were influenced by the liquidity of the acquirers and the availability of the target. Corporate parents were determined to be expressly liquidity-driven in the sales of their subsidiaries, particularly when the subsidiaries were being traded in a cash offer. Moreover, acquisition discounts were determined to be considerably larger when debt capital was comparatively more expensive to obtain. These discounts were observed to be greater than those observed in cases in which parent firms had underperforming stock returns for 1 year before the completion of the transaction.

In this chapter and Chapter 2, the dissertation tested the method of payment and target ownership structure as was performed in previous research; however, this is a unique data set of Chinese evidence; the time period and data size were basically Chinese M&As history. The motivation to choose the Chinese M&As market lay in the obvious fact that Chinese companies are becoming more active in seeking acquisition opportunities, and there were some remarkable cases in the past decade.

Motivated by the above-mentioned facts and issues, this chapter examines short-term performance study. The dependent variables are CAR [-2, 2] and CAR [-5, 5] of Chinese public bidding companies. The key explanatory variable was the public status

of target firms. Public status includes overseas public target firms, and the rest are non-public, including private, joint venture, and subsidiary as a whole. In the sample, of the number of transactions (465) between public targets and non-public target, only 18% of target firms were publicly listed, and 82% of target firms were not public companies. This research proposes to recognise differences in performance of cross-border M&As of Chinese listed companies. This study follows numerous theories that provide a deeper understanding of this research area and explore concepts from a different angle. In fact, there have been more transactions with private overseas firms than public firms. Therefore, there is no need to give advice to Chinese bidders on general strategy although firm size may need to be considered. Moeller et al. (2004) selected samples of 12,023 transactions. The equally weighted average announcements return for the bidder company's shareholder from 1980 to 2001 were 1.1%, which represents gains of \$5.61 per \$100 cost on acquisitions. Moeller et al. (2004) determined that small companies operated significantly outperform large companies when they made M&A announcement. Generally, abnormal returns associated with M&A announcement for small companies surpassed abnormal return associated with M&A announcement for large companies by 2.24%. Moeller et al. (2004) identified evidences that the management of large companies generally spent more on M&A. The premiums paid increased with firm size after monitoring for company and transaction characteristic. For M&A of public companies that was financed by equity, small company benefited significantly when it announced M&A decision. The large company suffered substantial shareholders losses when it

announced the merger of listed company regardless of how M&A is funded. The relative size and transaction size were factors tested in this thesis.

This thesis contributes to M&As literature in numerous areas. Firstly, although literature on target public status is voluminous, the studies tend to be regional investigations, such as the U.S. and the U.K. Research on China's market remains scant. Therefore, this thesis presents a unique data set in Chinese public company, cross-border M&As. These M&As represent half of cross-border transactions in China, and the time period basically covers all transactions since China's stock exchange was established.

Second, the majority of bidder companies in China acquired overseas private firms as the previous literature suggested. This is a good situation for Chinese investors. This thesis attempts to specifically explain the regional differences in North America, Pan-Europe, Asia-Pacific and rest of the world; and other factors may affect performance in the short term. This paper will help Chinese investors select better targets and will provide academic support for their activities.

Third, the Ministry of Commerce of the People's Republic of China monitors all direct overseas investment, including cross-border M&As. The author expects this dissertation to have some influence on Chinese bidder companies when they select a target. The regional research in this thesis may provide Chinese regulators with a

better guideline to approve investable projects and stop losses from risky markets.

Future research on regional factors and industrial factors may result from this thesis.

## **3.2 Literature Review and Hypothesis Development**

### **3.2.1 Hypothesis**

Most findings have demonstrated the positive effects of cross-border M&A transactions. There are also some findings that have concluded that cross-border M&A transactions do not add value to shareholders' wealth. Bradley et al. (1988) stated that an effective tender offer may increase the combined value of both bidder and target firms by 7.4% on average. This dissertation raises the question of what types of target firms deliver better short-term performance in cross-border M&A activities.

Chinese enterprises became more active in M&A activities in recent decades. This study must also consider that the Chinese market is an emerging market. Event study methodology was applied to test the sample and collect the cumulative abnormal return data. The empirical study tests the three hypotheses; however, there are some limitations to the study. First, the data for acquirers were available only for listed companies; approximately 50% of transactions were traded by unlisted companies. Moreover, the sample data focused on short-term performance because of the

volatility of the Chinese stock market; long-term performance (over 1 year) scarcely reflects the M&A activity effect. Within the unlisted companies, there are several different types of ownership, such as joint venture, SOEs, and subsidiaries. Thus, there are many improvements that may be extended to research in future studies.

This chapter focuses on the target public status effects on M&A returns. The three hypotheses follow:

H1: Chinese listed companies obtained positive abnormal return in short-run when they acquired overseas public firms.

H2: Chinese listed companies obtained positive abnormal return in short-run when they acquired overseas private firms.

H3: Companies acquiring private firms outperformed companies acquiring public firms.

The non-public firms in cross-border M&A deals included private, joint venture and subsidiaries. These hypotheses are consistent with the results of Chang (1998) and Da Silva Rosa et al. (2004). Chinese stock markets is quite volatile, and the market overreacts easily to announcements. Bidder companies normally pay more for public

targets. The reason of why acquiring private firm may outperform acquiring public firms, which could be conducted when the public target announce the transaction, the stock price would tend to increase, therefore the acquirer will pay more premium in the deal. The shareholders of the bidder firm will not expect this.

### **3.2.2 Motivation Theories of M&As**

#### **3.2.2.1 Synergy Hypothesis**

Synergy theory refers to overall efficiency of united companies that are greater than entirety of separate businesses' effectiveness; commonly, 'one plus one is greater than two' represents this effect. Financial synergy, originated by Markham (1973), states that M&As may carry advantages to financial performances of businesses, for example rational taxes benefit from native government of acquired company, worthy investment opportunity in which the enterprises are able to utilize redundant funds, and expected equity price growth. Managements synergies objective that degree of efficiency of company administration are primary motive of M&As (Jensen and Meckling, 1976). The development of operating efficiencies may also engender more benefits.

#### **3.2.2.2 Market Power Theory**

Market power theory explained that primary incentive of M&A was to pursue control of the markets by acquiring of entities that have resource and customer in the markets (Stigler, 1991). The straight advantages are growth in market attentiveness and might even leads to sector monopolies.

### **3.2.2.3 Transaction cost theory**

The key reasons for M&As are that business transaction costs may be internalized to save cost of external trades (Coase, 1937). Hennart and Park (1993) applied this theory to analyse investments and M&As on the selection of international enterprises. The results indicated that if international enterprises enlarge into non-related sectors, transaction decision may reduce risks and transaction costs.

This theory may also relate to cross-border deals. Barkema and Vermeulen (1998) and other scholars determined that though there is a primary high costs of cross-border M&As, the transactions support the development of business performance in the long term. Bresman and Birkinshaw (1999) and other researchers observed that cross-border M&As may lead to strategic advantages for the acquirers that improve fundamental competency and fill strategic gap. The main goal for a M&A transaction is regularly to gain the resources of target firm and transfer benefits to their acquirers.

## **3.2.3 Financial Performance Theories**

### **3.2.3.1 Business Factors**

Organizational scales, fundamental competitiveness and a variability of physical and



human resource are quite significant in development of companies. A company has prior experience with international operations and has positive effects on cross-border M&As. Such experiences are generally considered to help increase the financial performance of M&As (Markides and Oyon, 1989). Buono and Bowditch (1989) thought that the steady management approach may help synergy of post-merger combination; however, management approach dissimilarity is the major purpose for operating outcomes after M&A unsuccessful to reach anticipated objectives.

#### **3.2.3.2 Macroeconomics Factors**

Macroeconomic factors refer to markets in which the capital activities and other macroeconomic conditions are involved. The exchange rate, tax rate and related policies or laws, in particular, may garner more attention in cross-border M&As (Manzon et al., 1994). The influence of the exchange rates is chiefly echoed in prices of target firms in the assessment exchange rate. Cross-border M&A transactions tend to be massive, and the exchange rate changes frequently; thus, the correct judgment of the transaction exchange rate for companies is quite significant for financial decisions.

#### **3.2.4 China's M&As**

To better explain the topic, the literature review presents several variable perspectives from different studies regarding M&As. This section generally concentrates on the

comprehensive theories of financing, strategic managements, organizational behaviour and post-merger integrations in area of M&As to construct effects that affect firm's theoretical models of value making and briefly explain progress of M&As in the Chinese capital markets. The literature review includes many viewpoints from previous studies regarding M&As that are based on different theories, and the majority of the theories purposely focus on complementing this study, presenting factors that influence the value creation of M&As. The factors that affect value creation for M&As in listed Chinese firms are method of payment, leverage ratio, resource integration and the degree of staff resistance. Moreover, cash offers, the proportion of acquisitions, and the degree of post-merger resource integration are all relevant to value creation. Although staff resistance does not encourage M&As' value creation, industry relevance has obvious indirect and positive influences on the M&As' value creations (Arzac, 2004). This literature review also demonstrates that there was collaboration between factors of M&As value making and organizational fitting, and related transaction influence degree of employees' resistance in target firms. Finally, this literature review concentrates on Chinese cross-border M&As with public and private targets and explains how to create value for the transactions.

M&As activities that encourage the development of a global economy continue to grow. Industry restructuring and consolidations rely primarily on M&A activities. Enterprises are able to obtain more market shares and thus may generate more value in their market (Arzac, 2004). With the quick development of China's economy,

Chinese firms have become main players in the M&As market. According to the development of governance and management in Chinese firms, they have progressively become accustomed to selecting M&As strategy to grow their businesses. M&As is the method of business expansion that increases market shares and combines resources. This is a significant approach helping Chinese firms to globalize. Nevertheless, there are challenges and risks for Chinese firms.

Haspeslagh and Jemison (1991) connected the results of the merger integration process to the reality of results, which indicated that value creation in M&As are derived from the capability of strategic transferring and discussing the difficulties in the process focusing on specific reasons and contributing factors. Those authors suggested that the value creations of M&As derive from the capability of strategic transferring. The competitive advantages are the formation of interactions between the different degrees of the organization through the transaction for both parties. Generally, previous research on M&As examined many different perspectives, multi-fields, and multi-levels with specific considerations; this study is able to absorb and develop based on these previous findings.

There are also many Chinese specialists and entrepreneurs with experience from practical cases; they have learned lessons that made them completely aware of the significance of cross-border transactions. Many specialists and scholars have written journals about this particular area (e.g., Chen, Y. and Young, M., 2010; Boateng, Q.

and Wang, T. Yan, 2008; Chen, Y.Y. and Young, M. N., 2009; Ryu, K. H. and Lee, J. E., 2009). These authors conducted studies in this field and contributed findings.

Examining cases of M&As helps scholars to understand transactions; therefore, the China Securities Regulatory Commission (CSRC) requested that public companies disclose their activities. Thus, there are numerous domestic empirical studies that contribute. The success of transactions strengthens the core competency of both bidder and target firms and explains the success of M&As from perspectives such as business and management.

#### **3.2.4.1 China's Merger Waves**

To observe a period of time, company mergers activities have arisen in characteristic forms. In some periods, there were showed very strong and frequent activity where as in others time of period were showed slighter activities, there were some more positive whiles others found more negative. To observe these M&A activities, it will be able to identify in the historical data and each of waves have their own major features.

There were 3 mergers waves in China. The first wave of domestic M&As was in 1984. The very first transaction was an air blower company in Baoding in the Heibei province of China. In the 1980s, corporations were restructuring and assets reorganized, and there were numerous losing businesses and less competitive firms

that were acquired by other larger companies with better quality assets. In the year 1984, Chinese government began to encourage company restructure and help minus competitive businesses.

The following waves of M&As began in 1992, the year that China established the capital market economic system. The major objective of the market economic system was to reform economic structure and encourage the emergence of the joint-stock reform of SOEs. Companies began to engage in mergers and reorganization in the capital market. This was also the year that a public company made the very first merger transaction.

The third wave of M&As began in 1997, which was later Asian financial crisis; Chinese firms began to grow quickly after the crisis. The year of 1998 has been called the year of M&As in China, and at that time, M&As transactions occurred in large Chinese firms such as the Vanke Property, Tsingtao Beer, China Everbrite Group, Hainan Airlines, and Danone Group. In April 2005, another stage of share reforming began in which all stocks of public enterprises slowly circulated in public markets. Numerous M&A transactions occurred between public companies.

After the financial crisis in 2008, China began to become a major player in M&As. However, transactions appeared to decline abruptly in 2008 and 2009; the volume of transactions recovered considerably worldwide in 2010 and 2011. Then another wave

of M&As began; emerging markets became the major markets in the world. In addition, the energy and minerals sectors were the focus of M&As transactions worldwide. Since 2008, the total China M&A volume have been never under 200 billion USD. Between 2014 and 2017, the amount has reached above 500 billion USD. The peak is the year of 2015 and 2016, which is 748 and 721 billion USD separately. And since 2010, the cross-border deals have started to become major contribution, which is above 50 billion USD, and reach to the peak in 2016 which is 217 billion USD.

The Chinese M&As market developed dramatically, particularly after 2010. For example, Geely acquired Volvo, and SOEs went abroad as well to promote their recycling resources and to purchase various mineral resources such as iron and steel. Chinese M&As had increasingly grown during this time and played an important part in M&As markets. With policy and development of open financial capital market in China, the VC or PE-backed M&A increased quite quickly as well.

#### **3.2.4.2 Value Creation of M&As in China**

Many academic studies investigated the four factors of M&As to determine what affects the value creation of transactions. Previous studies were primarily established on strategic finance and management status. Researchers in area of strategic management determined that whether strategic decision is applicable or not, M&As

definitely affect value creation (Lubatkin, 1987). Researchers in the financial area determined that the features of M&As transactions and the characters of both bidder and target may affect value creation in the transaction. Thus, previous researches could incompletely explicate M&As value making (Datta et al., 1992), and researchers observed that M&As value making primarily arises from M&A synergies of both entities and the realizing of synergy from post-merger integration of both entities (Haspeslagh and Jemison, 1991). A few researchers attempted to combine from organizational behaviour and sought factor that may explain these areas. These researchers in area of organizational behaviour principally researched organizational cultures fits for both bidder and target in M&As (Datta, 1991; Chatterjee et al., 1992) and effects of bidder's managements experiences in M&As value making (Haleblian and Finkelstein, 1999). Researchers of merger integrations chiefly examined M&A integration degrees (Pablo, 1994). The resources should be integrated post-merger to provide descriptions of procedure of value creation in M&As (Capron and Pistre, 2002).

Datta et al. (1992) used performance data from M&As value making to generate empirical researches, testing five main factors that affect asset and interests of shareholders throughout the M&A process. They determined that transactions that make payment with stock had a significant negative correlation with value creation. Although the regulatory regimes improved in 1969, the implementation of tender offers was positively correlated with asset of target firm's shareholder; however, those

authors determined that these five main factors explain only a portion of value creation in M&As. Organizational behavioural factors and institutional factors may also require consideration in the model. Based on the samples of the empirical research of Datta et al. (1992) and further investigation of whether diversification benefits the company in M&As, the relations among the companies, the methods of payment, and the experiences of managers affect value creation after the merger transaction. However, these four factors cannot effectively explain value creation, and there may be other important factors.

Larsson and Finkelstein (1999) observed that previous studies were not able to completely explain M&As because M&A transactions are continuous and comprehensive process. To explain only from view of strategic finance or management or only from organizational behaviour is not sufficient to explain the value creation of M&As. Incorporating finance, strategic management, organizational behaviour and human resource management creates an innovative theoretical model that helps to evaluate M&A value creation. This model reflects complementarity and relevance of both bidder and target firms. The level of interactions and coordination in organizational integration process and relation between degree of staffs' resistance to M&A and accomplishment of synergy are also quite significant. Those authors chose 61 M&As cases as their sample for empirical analysis. The results indicated that the complementarity of the two companies in the transaction, a higher level of post-merger integration, and less resistance from union members may improve the



synergy of M&As. Simultaneously, when levels of organizational integration in M&As are higher, it is more helpful to realize synergy in complementary M&As. Papadakis (2005) considered the factors that affect the success of M&As to improve post-merger performance. The external environment, such as highly competitive markets and technology development, is quite important, as are characteristics of the transaction such as paying a premium because of overconfident managers. Also important are the characteristic of bidder firm, for example its experiences with transactions, relative sizes of both firms in the transaction, and the specifications of decision-making procedure. Finally, integration of human resource is significant, for example, frequency of communication and employee turnover rate during the transaction. All of these factors are essential. To establish theoretical model to discover factors between 1997 and 1999 in Greece, the researcher observed that communications are the most decisive factor in completing successful transaction.

Additionally, to espousing four factors above, a few researchers identified further results. Some studies identified the synergistic effect as the driving factor of M&As' value creation. Horizontal mergers create an economy of scale and scope, vertical mergers lead to lower costs, and mixed mergers benefit both horizontal and vertical mergers because of synergy (Weston, 2004). Zollo and Meter (2008) observed that market powers are a key driver in M&As' value making; horizontal and vertical or mixed M&As may improve attractiveness of companies and toughen barrier to entry, controlling market prices and therefore obtaining unexpected benefit. Strategic

motivations are also motive of M&As' value making; horizontal, vertical or mixed mergers may present rare resource (Chung and Alcacer, 2002) or fast market developing (Shimizu, 2004) to gain strategic advantages. Masulis et al. (2007) observed that agents are also motive of value damage in M&As' value creation by pursuing self-interest acquisitions of corporate management. The expansion of a company by a M&A may improve the dependence of the company, which may damage value creation. Overconfidence is also a driver of value damage in M&As' value creation. For example, the M&A decision was made even if the gain in valuation was negative (Roll, 1986). This may affect value loss to M&As' value making. Healy (1992) tested 50 samples between 1979 and 1984 using empirical researches and observed that in the majority of synergy from M&As' activity, agents and arrogance coexisted. Agents had a positive effect on M&As' value creation, and arrogance had negative effects; however, these motives of M&As were nevertheless unable to fully explain the source of value creation or value damage. In China, previous research determined that motivations of M&As were associated with some distinctive Chinese characteristics, such as "eliminate loss motivation" or "bankruptcy alternative motives".

Motivations of M&As do not explain value creation or damage. Value may not be explained by a few factors related to M&As' activities in transaction failures. Hence, many researchers shifted their focus to different aspects, such as strategy, finance, organization, management and integration of M&As to explain transaction value

creation or damage. According to the findings of Lamont and Polk (2001), research on strategic reasons proposed that the design and planning of value creation in M&As were essential. Better competitiveness in the market and the flexibility of regulations and policy may also create better value creation (Andrade, 2001). Bouwman et al. (2009) noted that research in finance indicated that the bidder company had more incentive to create value when it held more equity in the target company. Stock payment is a better choice when the target company is overvalued; conversely, cash payment is a better decision when target firm was undervalued (Hansen, 1987). Nevertheless, no matters what methods of payments are used, higher premiums cause more damage to value creation (Rhodes-Kropf, 2005). Research on organization indicated that the overconfidence of managerial leadership in M&As more easily damaged value creation (Roll, 1986). However, Lang et al. (1989) observed that poor leadership of corporate management was more likely to damage value creation. After researching post-merger integration, Nardozza (1997) reported that strategy, organization, human resources and corporate culture were the primary issues of M&As' activities. Bert and Timothy (2003) observed that deeper and faster integration created greater value creation in M&As' activities; however, Homburg and Bucerius (2006) reported that the level and speed of the integration in M&As had indeterminate effects on value making.

In early 1990s, China began to create the capital markets. The first completed M&As activity in listed companies was completed in 1993; therefore, the duration of

historical data is quite limited in China. Previous studies primarily analysed the theoretical motivations of M&As, and Chinese researchers conducted numerous empirical studies on whether public firms are able to create value in M&As and how to identify and prove an appropriate theory. Conversely, because of the lack of systematic research on the factors that affect value creation, only a few studies also focused on finance and strategic management perspectives between 1999 and 2001. Those studies selected 84 Chinese public firms as the sample to identify transaction premiums, industry-related levels, industry-related sizes, the proportion of transactions, and the proportion of shareholdings as the major factors affecting the performance of M&As. These factors may explain the changes in operating performance after transactions. Because of difficulty of data collections, empirical research on both organizational behaviour and integrations of M&As is extremely limited. Only a few studies used secondary data to explore the effects of target firms post-M&A. Examining assets, management, details, structural integration, and industry-related degrees, the findings were that there is no effect on industry-related degree. Moreover, stronger financial strength had negative effects on value creation and on the cultural differences among management teams (Yao and Shi, 2010).

Previous research provided some valuable evidence although these studies lacked evidence of M&As' value creation or damage. Three primary factors may explain and fill the gap. First, research failed to disclose the relation between transaction value making and internal procedure. The primary target of researches has been how M&A

motivations cause M&A procedure of value making or damage. Depend on motivations of M&As' value making, there is no difference, which is inconsistent with actual transaction. Another finding was that there was no relation between the motivations of M&As and value creation, which is not consistent with reality. Second, the majority of former studies used large group of sample data, which did not allow investigation of the process and mechanism in an in-depth study of value creation. Third, conflicts and differences remain in former studies for reasons such as different regions and sectors.

The above literature review indicates that if only one or two aspects of M&As are investigated, a study cannot fully explain post-merger value creation because the M&As transactions are quite complex. Larsson and Finkelstein (1999) observed that conclusions are meaningful when investigating integrated strategic management, finance, organizational behaviour and theoretical models of human resources management theories. Those authors believed that these factors should be considered in further studies on value creation in M&As. Moreover, studies of these factors that affect value creation in Chinese markets must also consider financial and strategic management.

#### **3.2.4.3 Risks of M&As in China**

M&As present some issues or risks because of the undeveloped Chinese financial

market and system. First, government only recently began interventions to regulate M&As activities because the regulators began to realize the imperfection of the young Chinese M&As market. Second, property rights of SOEs (state-owned enterprises) are imprecise. Theoretically, SOEs belong to the Chinese common people; in fact, they belong to the related local or central government department. Managers are merely operators, not the actual owners of assets. Therefore, when SOEs are involved in a transaction, the M&As process becomes more complicated. Third, local protectionism isolates the M&As market. Some local governments may tend to protect local interests, disregarding the rules of the market or industrial trends and establishing restrictive policies that create barriers to the market and affect the development of industry for good or bad. Finally, because investment banking was less developed, when companies were engaged in M&As transactions, professional intermediaries were definitely necessary. Investment bank is obvious intermediaries; nevertheless, if bidder or target in a Chinese market owns a sector of the state economy, the investment banks must work with the local government, which may be more costly and time-consuming.

Previous studies investigated the development of M&As in the Chinese market. Larsson and Finkelstein (1999) and Papadakis (2005) observed that because acquisitions are dynamic and continuous procedure and interactions are affected by different factors of value creations, the research on M&As' value creation must be applied in an integrated model. The four areas that explain value creation in M&As

are strategic management, financial areas, organizational behaviours and merger integration. In addition, some scholars hold that these factors are the core motives of whether M&As succeed. The research also indicated the primary factors that directly affect value creation in Chinese M&As: staff boycotts, resource integration, methods of payment and proportion of acquisition. Staff boycotts are not beneficial to M&A value making. Cash acquisition, a great proportion of M&As, and a high level of resource integrations after a M&A are beneficial to value making in M&As transactions. Another empirical study determined that industry-related and resource integration have no direct effect on M&A value making. Lastly, this research also indicated that interactions among diverse factors of M&As value making may affect extent of organizational fitting and whether M&A interactions are good. Interactions may affect employee resistance in target company in transaction. However, there is also some risk in these factors that create value; for example, former studies did not explore the internal process relation in value creation in M&As, studies nearly always used large samples that may not explain all situations, and some conflict remains regarding the findings. Moreover, the research results indicated four issues in Chinese M&As. First governments did not regulate companies in M&As; second, the property rights of SOEs are confusing; third, local protectionism artificially divides the merger market; and fourth, investment banking is underdeveloped.

Berkovitch and Narayanan (1993) developed the approach to assess target firms and total gains from Bradley et al. (1988). The data in their research comprised successful

M&As transactions between 1963 and 1988. These scholars provided estimations of gain of target firms and bidder firms for 330 tender offers in the research. Their tables indicated that mean gains of target firms and bidders were \$130 million and -\$10 million, separately. In 49.4% of tender offer transactions, bidder firms realized positive gain; however, in 95.8% of transactions, the gain of target firms were positive. In 76.4% of tender offer transactions, total gains were positive. The data indicated that approximately 75% of buyouts were motivated by chasing synergies effects; remainder were primarily driven by agency motive or the hubris hypotheses. Of takeover transactions, 63.9% realized positive total gain; bidders had positive gain. As seen from subsample of negative total gain, losses from M&As might be massive; mean total losses were \$146.5 million. The outcomes clearly supported their research hypotheses that synergies are primary motive for M&As in subsample of positive total gains whereas agency motives are principal motives of negative total gains subsample. To explain more detailed, plus signal on  $\beta$  that estimates positive total gains for the sample and minus signal on  $\beta$  that estimates negative total gain for the sample is not consistent with hubris hypotheses. Thus, there are no correlations between target firms and total gain.

Roll (1986) indicated that the hubris theory predicts that during M&A, total value of target and bidder companies declines a little, value of bidder firms also decreases, and value of target companies would rise. The empirical results in Roll (1986) indicated that combined value of bidder and target companies may nevertheless increase in a



few researches and decrease in others. The values have not been statistically significant. Statistical changes in markets value of bidder company has been blended across researches and the majority of changes were quite small. These changes were deemed considerably negative in a few results, and other researchers determined them to be positive. The price of target firms steadily increased, nevertheless, only if primary bid or a later bid was effective.

From the perspective of a U.S. bidder, Moeller and Schlingemann (2005) identified empirical evidence that cross-border M&A are different from domestic M&As on basis of equities and performances of operations. They used samples of 4430 takeover transactions since 1985 to 1995. By monitoring for different factor, they determined that U.S. companies that purchase overseas target firms compared with those that bid on domestic target firms have considerably fewer fluctuations in operating performances and considerably lower announcements equity return (approximately 1%). Equity return is negatively related to development in both global and industrial diversifications. Those authors determined that bidder return is positively associated with M&A activities in target company's country with legal systems that provides more right to shareholders. Excluding in the U.K., bidder return is negatively related to target country's level of economic restriction.

#### **3.2.4.4 The Result of Chinese Firms to Takeover Foreign Firms**

Calomiris et al. (2010) observed that Chinese SOEs' activities lead the China's M&As market with significant positive abnormal returns surrounding announcements of the transaction, and SOEs are more likely to acquire unlisted and private companies. This is not consistent with the U.S M&As market that overall may not obtain abnormal returns (Fuller et al., 2002) although other evidence indicates that to acquire private companies creates positive financial growth for shareholder (Faccio et al., 2006). In addition, SOEs acquiring other enterprises are more likely to pay in cash. Due to the prior empirical studies mentioned, cash payments in the short-term is better than other methods. Hence, the short-term bidders' returns grow with significant abnormal returns and better-than-expected factor in six months (Calomiris et al., 2010).

Over the long term, there is more evidence that the operational performance of bidder firms did not change significantly in the 3 years after the Chinese enterprises completed the transaction (Calomiris et al., 2010; Feng and Wu, 2001; Wang et al., 2001). Nevertheless, shareholders' asset greatly increased over the 3-year post transaction periods, particularly for SOEs.

The cross-border M&As accounted for only 10% of overall M&As transactions; the most of targets were private companies in China from 1997 to 2007. During that decade, except for the unlisted companies or internal M&As in which shares were

purchased from subsidiaries, there were 136 suitable samples are identified for testing, and all involved in M&As transactions. The investigation of cross-border M&As groups was not consistent with any theories or empirical outcomes from earlier 2008. Li (2010) observed that cross-border groups mainly deal with SOEs and underwhelmed the markets by the standard value creations measured by stock prices moving surrounding announcements date. That author also observed that cross-border M&As in Chinese market do not reflect the interests of shareholder and it is likely that the transactions are politically driven although there is not a sufficiently large sample to determine a significant implication. The history and data remain limited to observing bidder returns on Chinese cross-border M&As transactions. However, searches and studies remain scant in China. Therefore, this dissertation emphasizes the perspective of theoretical findings and examines regulations to transfer knowledge.

### **3.3 Data and Methodology**

#### **3.3.1 Sample Selection and Data Description**

The selected samples all contained M&A transactions (complete or incomplete) involving Chinese public companies as bidders from 2002 to 2016. The primary data were collected from Thomason One Banker transactions (SDC) and the GTA (CSMAR) database. Similar to Fuller et al. (2002), the samples selected fit the

following criteria:

1. The acquirers must be Chinese firms listed in the Shanghai or Shenzhen Stock Exchanges.
2. To test the hypotheses requires all announced transactions, which includes all Chinese listed firms' cross-border transactions.
3. The target firm may be public, private or other and must be a non-Chinese firm.
4. The acquirer firm must have been publicly listed for at least 1 year before and after the acquisition announcement.

The sample began in 2002 when Chinese public companies began to acquire foreign companies until the end of 2016 and included 465 acquisition announcements of listed Chinese company cross-border takeovers.

### **3.3.2 Methodologies**

For all transactions, the acquirers were classified into two groups, the acquiring public and the unlisted target. The performance of bidders was observed for several days, beginning approximately 2-5 days before the date of the acquisition announcement and ending approximately 2-5 days after the announcement.

When all data samples were collected, testing followed Brown and Warner (1985).

The modified market model was applied to appraise daily abnormal return (ARs), which are the acquirer's daily return minus the value-weighted stock return of the Shanghai and Shenzhen Stock Exchanges:

$$AR_{i,t} = R_{i,t} - (\bar{\alpha}_t + \bar{\beta}_1 R_{M,t})$$

Compute cumulative value of average abnormal returns of entire sample throughout events periods.

$$CAR_T = \sum_{i=0}^N AAR_T$$

This equation indicates general average effects of firm's transactions of sample events for whole equity return.

~~Abnormal returns were summarized for 5 and 11 days before and after each acquisition announcement (-2, +2) and (-5, +5) as~~

$$CAR_{i,t} = \sum_{t=-2,5}^{t+2,5} (R_{i,t} - R_{M,t})$$

~~where  $R_{i,t}$  is the returns (i) of an individual firm at day t and  $R_{M,t}$  is Shanghai and Shenzhen value weighted stock returns at day t.~~

The specific steps of calculations are the same as 2.3.2.<sup>5</sup>

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<sup>5</sup> The result is robust by using different model, for example, Fama–French three-factor model and Fama–French five-factor model

### **3.3.3 Empirical Analysis**

The financial industry is one of the most important sectors in the market. M&A activities are not only one of investment banking's core businesses but also important strategic decisions or simply financial investment solutions. Therefore, M&As are essential to the capital market. Many journalists have conducted a great deal of research on value creation from M&As. In the past few decades, numerous empirical studies demonstrated that M&A activities may deliver the opportunities and potential for value creation for both acquirer and target. Examining different financial indicators may unearth many different methods to validate value creation. Previous research from Jensen and Ruback (1983) examined whether M&As create value, and numerous scholars have broadly and deeply argued the issue. Nevertheless, there is no consensus among scholars, and different articles present different views on value creation from M&A activities. Jensen and Ruback (1983) studied 13 takeover transactions to determine whether shareholders of target firms can obtain a 20% value increase in merger and 30% in tender offer. The acquirer firm may obtain 4% of abnormal returns in tender offer and 0% in merger in effective transactions. The majority of researches focused more on short-run financial movement and market performances than long-run performance and valuation. More than a few studies were event studies and empirical analyses to determine the value creation of M&A activities.

In this study, the author explores data from cross-border transactions. The study provides more details of Chinese listed bidders acquiring overseas companies. The consequences of Chinese listed companies acquiring overseas companies are significant. The study focuses on overseas markets, particularly the developed markets that are more freely competitive financial markets. Compared with developed financial markets, the Chinese market is highly regulated and restricted. Chinese firms may have to integrate international standards by acquiring overseas companies to achieve internationalization. It is not only the factors stated previously may influence the value creations of M&As but regulations and internationalization may help Chinese firms achieve the value generated from acquiring overseas firms as well. These research questions may be answered in two stages. The first stage is to identify the motivations of Chinese listed companies acquiring cross-border targets. The second stage is to identify the difference between overseas targets and domestic targets, for example, firm size, method of payment, leverage ratio, and the target's public status.

#### **3.3.3.1 Financial leverage**

Morellec and Zhdanov (2007) constructed the dynamic models of M&As in which financial policy of bidders' companies and the terms and timing of merger activity were jointly determined. In that study, financial leverage was quite an important commitment factor and determined the results of acquisition competition. Those

authors stated that the possibility of developing externally by monitoring transactions constructs an asymmetrical equilibrium in financing policy, and lastly bidder with lower leverage ratio is likely to survive M&As competition. With regard to asymmetric equilibrium, the leverage ratio is well-balanced insolvency cost with benefit of taxes shield. This is considerably larger than the capital structures of the competition's success. The application of the models was consistent with the accessible empirical evidences and created numerous innovative forecasts. Principally, the models forecast that the acquirers with a lower leverage ratio tend to be successful in M&As competitions except when the targets companies have an extremely higher leverage ratio. Due to the rationality of their models, the model forecast the bidder winning the competition to increase the leverage ratio after the transaction was completed. Their model also linked the dispersion of the industry leverage ratio with various industry features, such as the instability of cash flow, national industries and bankruptcy costs.

#### **3.3.3.2 Method of Payment**

Travlos (1987), examining only stock transactions, concluded that the acquiring firm determines whether the shareholder experiences large losses during the announcement period of the takeover offer. However, the results for the bidding firm that is paying cash demonstrated that the shareholders experience a normal rate of return during the announcement period.



Yook (2003) took the position that there may be two major effects of payment in cash. The first effect is on capital investments, and the second is the financing influence. Assuming that to choose cash as payments option in great value creation transactions, synergies influence raises valuation of both equities and debts. Simultaneously, the synergy effect may reduce the financing risk of a company. However, the leverage ratio increases because cash payment transactions are positive on financial risk. Replacing the leverage effect with the synergy effect increases the rating. If these two effects offset themselves, the rating is not affected. Inversely, the drawdown on rating results from the leverage effect leading the synergy effect.

Cao (2013) stated that cash payment transactions result in satisfactory long-run performances. The performance of M&As became steadier in recent decades, and the number of transactions has also been gradually growing, which are consistent with the empirical evidences of value creation theory to cross-border M&As. Acquirers' selecting cash payment is an obvious advantage; the company is thus able to offer plenty of cash and good operation. Holding liquid assets such as cash achieves the purpose of offshore expansion and strategic business diversification. M&As activity is the quicker way to expand a business, achieving targeted growth and shrinking the time required for research and development.

Eckbo et al. (1990) used the sample of 182 acquiring companies between 1964 and

1982 to analyse the abnormal return of shareholder. Those authors reported abnormal return of 5.7% when transaction were financed with a combination of cash and equity and 2.7% when transaction were financed by stocks only. When transaction was conducted in cash, abnormal returns were not significant.

Shleifer and Vishny (2003) created the simple models that was consistent with the obtainable empirical evidence and created several innovative theories. First, takeovers are disproportionate conducted in cash when the valuation of the industry is low and conducted in equity payments when the valuation is high. Second, the volumes of stock transaction increases as the dispersions of valuation between company's growth. Third, the targets firm in a cash payments acquisition has a lower prior return whereas the bidding firm in an equity payment acquisition has a higher preferred return. Fourth, the bidding firm in an equity payment acquisition indicates overvaluation, for example, insider selling or manipulating earnings. Fifth, a long-term return to a bidding firm tends to be negative in equity payment transactions but is positive in cash payment transactions. Sixth, although long-run return is negative, equity payment acquisitions provide interest for long-term shareholders of bidding firms.

Martin (1996) stated that a downgraded acquiring firm has a higher return than an acquiring company with an unchanged grade and that an upgraded company tends to have an exceptionally higher return than both grade unaffected and demoted firms in the stocks payments method. In fact, upgraded and stocks payment bidder companies

has the highest positive abnormal return whereas demoted bidder companies using the stocks payments method has the highest negative return across all samples.

### **3.3.3.3 Size**

Moeller et al. (2004) described the size effects as gaps in abnormal return between larger firm and smaller firm. Those authors also indicated that the abnormal profits that are connected to an acquisition announcement for small firms exceed abnormal returns related to transaction announcement for larger firms by 2.24 %. The evidences also indicated that larges firm suffer interest damages for stockholder when the announcements of the transaction of a listed firm is released, however the acquisition is financed. That is why the size of a firm is an important aspect that may influence the returns on the transaction to bidder company. In their research, those authors measured the signs of equity and growth opportunity and theorized that the overvalued and hypothesis of free cash flows explained effect of firm's size. They also measured whether larger firms tended to accept offer with negative synergies and overpaid. Finally, the research of sample regarding long-run return derived from transaction by large and small firms.

Anderson et al. (1994) identified evidences of targets size effect established on average return. They adopted the 0/1 market models with a 13 month events window. They calculated that the average smaller firm excess returns were 24% and the

average large firm excess returns was 16% in the transaction announcements month. The difference in excess return changed with the transaction announcements, and the average excess return of smaller firms was greater than of larger firms in whole sample during the transaction announcements period. Those authors also observed no evidences of any relations between results and size when evaluating the robust of result. However, they did identify evidences of the relations between size and following offers although the condition separately occurred in the 13 month events window and in the smaller firms group.

#### **3.3.4 Event Study**

This study focuses on the value creation of M&As since the stock exchange began in China. The performance evaluations of M&As are a debatable topic in this field of empirical research. Since the 1970s, studies in this field have been constant and have presented particularly remarkable findings from empirical research. The M&As transactions continue to occur, creating many more events to track. Using performance evaluation analysis, previous studies attempted to identify the shifting of the enterprise value from M&As transaction. The research methodology was primarily event studies, which are established on equity prices movement and accounting analysis and on financial performances (Robert, 2003). The method of event study focuses on the equity prices movement of M&As bidders or target companies as the research objects. The method observes stock price movements to

explore the volatilities of shareholder earnings pre- and post-M&A announcements and evaluates the performance of abnormal returns by computing cumulative average abnormal return (CAR), earnings per share (EPS) and other signals. The method of event study is dominant in this field of study and has been validated.

#### **3.3.4.1 Empirical Evidence**

Langetieg (1978) computed the CAR of 149 M&As deals between 1929 and 1969 during M&A announcements window periods. He identified the target company shareholders' CAR to be 10.63% and the shareholders' CAR of the bidder company at -1.61%. The mutual CAR was 0%. Thus, M&As only generate value for shareholder of target company.

Jensen and Richard (1983) announced results on foundation of 16 researches and determined that the profitability of the bidder in completed M&As was none. They determined that completed transactions could carry abnormal returns for shareholders of the target company of approximately 20%, and successful transactions created earnings up to 30% for the shareholders of the target company.

Frank and Harris (1989) presented the findings for more than 1800 U.K. companies involved in M&As between 1975 and 1985. They determined that during the M&As announcement period, which is from 4 months before the M&A announcement to 1

month after the M&A announcement, the shareholder of target firm obtained abnormal return of approximately 25% to 30%.

Schwert (1996) selected 1814 samples of data on M&A events between 1975 and 1991 and also determined that shareholder of target firm obtained 35% abnormal return on average for the period of the M&A announcement and transaction.

Berge and Ofek (1995) researched event studies for 107 data samples regarding refocusing announcements between 1954 and 1993. They determined that refocusing the announcements moved firm approximately 7.3% on CARs. In the meantime, the cumulative average abnormal returns were positively and considerably correlated with loss of value affected by applying diversifications approach on samples, and the authors also indirectly observed the ineffectiveness of diversified M&As.

The Securities and Exchange Commission established an expert committee in 1983 comprising 18 people who explored effects of value creation on both the bidder and the target companies in M&As transactions from 1986 to the present. An expert committee disclosed that there were no adequate evidences to demonstrate that M&A activity creates value for the public (Wang, 2004). Therefore, the Securities and Exchange Commission enacted assessment that neither predominantly supports nor constrains the rule of M&A activity.

Weidenbaum and Vogt (1987) reported several findings based on historical data. One finding was that the shareholders of bidder firms generally received a negative return. Merger transactions always include benefits and losses. The shareholders of target firms tend to create benefits whereas the shareholders of acquiring firms tend to suffer losses in the transaction (Weidenbaum and Vogt, 1987). Caves (1989) reported several findings that measured the response of equity market and earnings after M&As announcement over several years. One finding was that prior research stated whether M&As would create value for M&As transactions that relied on value of target firms before announcement. Financial market assumed that the bidder was able to squeeze out more value from the assets of the target firm. Nevertheless, later studies come to the opposite conclusion, that M&As do not guarantee a value premium and abnormal return and may also decrease the real yields of the bidder's business sector and increase the level of productivity discreteness to decrease the value of acquirer stock. Datta et al. (1992) reported several findings, stating that the yield of the bidder was less than 0.5%. It may be demonstrated by adequate evidence that the bidders' shareholders cannot commonly obtain an abnormal return.

Bruner (2002) published comprehensive summaries that analysed data from 1971 to 2001, observing that in the process of a M&A transactions, shareholder of target firms in a developed market gain more abnormal return than the shareholders of bidder firms in an emerging market. In addition, the stock price of the target firm increases sharply, 10% to 30% of excess returns. Second, the equity yields of bidders were quite

inconclusive, demonstrating a negative tendency. Moreover, over time, the long-run financial performances of bidder indicated descending tendency. The inclusive shareholder's earnings of the target firms and the bidder was uncertain as well. Grubb and Lamb (2000) advised that approximately 20% of M&As transactions were in fact successful; the majority of M&As transactions decreased the value of shareholder assets. The failure rate for M&As is also quite large and tough to monitor.

The researches not only demonstrated views of value creation for shareholders in M&As but also suggested M&As' damage to shareholders' benefits. When authors investigated the shareholders of bidder and target firms, they discovered as many differences as there were assumptions. Although there may not be consensus on cross-border transactions and shareholders' value, the overall summary is that M&As could be more valuable to the shareholders of target firms while uncertain for shareholder of bidder firms. And the combined total value of the transaction may tend towards zero.

#### **3.3.4.2 China's Evidence**

Chinese academics also selected event study to investigate M&As transactions' performance, and the primary findings are below.

Li and Chen (2002) selected event study as the method to conduct an empirical



analysis of 349 M&As transactions between 1999 and 2000 in China's stock market. They determined that first, the shareholders of bidder companies obtained a positive cumulative abnormal return during the M&A announcements window [-10, 30] whereas target firm is unsuccessful to obtain good cumulative abnormal return during that period. Second, M&As may not have major effects on value for shareholders of the bidder company but do have significant effects on the value of target company. The value of shareholders' asset for target company decrease, and the equities transfer for the target company grow. Then there may be a declining trend. Third, the equities structure has specific effects on the value of bidders. Nevertheless, there are no effects on the value of the target company. There are 2 types of transactions that cause growth in value for bidder firms' shareholders, the proportions of state-owned equity and proportions of legal persons whose shares gain the most. However, the value for shareholders of the bidder company that most benefitted from the tradable A share did not change considerably. Fourth, the top managers strongly affected the value of the target company. The shareholding ratio of manager is negatively related to the value of shareholder for target company. When this ratio is higher, shareholders of target firm benefit less. Large proportions of shareholding do not reduce the agency problem in M&As transactions.

Zhang (2003) conducted empirical research on 1216 data samples regarding M&As transactions of public companies in China between 1993 and 2002. The research on average share price and average cumulative abnormal return in the public companies

was from a period established as -60, 30 of M&As announcement disclosures. The findings demonstrated that when the M&As occurred, there were 2 indicators of the target firm, an asset-restructuring event and a share-acquisition event indicating increasing trends. The stock price of the share-acquisition event increased more than for the asset-restructuring event. There is an indicator of the bidder firm, that a consolidation-merger event caused decreasing trends. The research consequences of the event study method stated that all of the samples of CARs were considerably positive in range of -17, 30. In target company, CARs of share acquisition firm were quite positive in the range of -36, 30. The CARs of an asset-restructuring firm were quite positive in the period of 0, 10. The CARs of a consolidation-merge firm were negative. Research on average share price generated findings similar to the CARs. They both indicated that M&As transactions created excess return for shareholder of target firms and affected loss for shareholder of bidder firms.

Zhang (2003) selected the event study method to compute the 2 main indicators, abnormal returns and cumulative abnormal returns. Zhang was able to measure abnormal returns on stock price movement in the window of -10, 30 in the M&As announcement period. He conducted the statistical tests to define the significant degree of the announcement's effects. The study used CARs to determine whether the shareholders of a public company were able to gain an abnormal return in pre- and post-announcement periods of M&As transactions. The empirical findings were that during the transaction window in M&As, the ARs and CARs of the bidder firm were

not significantly larger than zero on trading days, and the shareholders did not gain significant premiums. Of the trading days, 31% indicated positive ARs, and 69% indicated negative ARs; there were no differences between ARs and zero. The CARs initially presented an increasing trend and then later declined. Furthermore, CARs decreased more in value than they improved. And the CARs of final window achieved -10.56%, and the value for shareholder declined.

Chen and Zhang (1999) researched public firms in 1997 after M&As and resolved that during M&As announcements window [-10, 20], the cumulative abnormal return of target company increased.

Guang and Rong (2000) researched M&As transactions on both the Shanghai and Shenzhen stock exchanges between 1993 and 1995. The shareholder of target companies obtained a positive cumulative abnormal return in M&As transactions; nevertheless, it was difficult for the shareholders of the bidder firm to obtain an abnormal return in the M&As transactions.

Liang (2002) tested the M&As transactions of 92 public firms on Shanghai and Shenzhen stock exchanges, selecting transactions between 1998 and 2002. The selected data involved the transfer of controlling stakes, and the research implied that the markets were different for M&As activities among Chinese companies. The assessment of the markets was not consistent with previous findings of foreign studies

on M&As activities.

Yu G. and Yang R. (2000) applied comprehensive performance evaluation methods to research 103 M&As transactions in which controlling stakes were transferred. The research demonstrated that overall, the performance of the bidder company caused few developments after the transaction. The performance improvement of non-special treatments was more noticeable than special treatments after the M&As. The free allocation company that benefitted from the support of governmental policy displayed more noticeable improvements than the stakes transferred with compensation.

As for the method of event study, Chinese academics were more likely to select accounting methods to measure M&As transactions performance because the events study relies on markets model methods that compute the volatility of share price to measure the change in company operating performance. The foundation is effective stock market trends, indicating that equity price echo all information to change value of listed firms. The majority of public firms have a definite percentage of non-tradable stocks and non-circulating shareholders that may not clearly obtain or lose value on stock price increases and decreases. Therefore, the volatility of the stock prices of public firms renders it difficult to observe the earnings changes of non-tradable shareholders, and the applicability of event study methods may be limited by a number of aspects. These studies engender quite dissimilar results, and whether M&As transactions create value for shareholders remains debatable in China's current

M&As market.

Zhang (2003) studied the EPS (Earnings per Share) of public firms, the returns on net asset and main corporate profitability. The signals were tested by an accounting research methods in the 3 years before and after M&As transactions. The results point out that short-run performances of target firms developed considerably although the performances improvements required diligence, and there were decreasing trends indicated in the performance of bidder firms after the M&As. Furthermore, the M&As can generate interests for target firm, then the financial indicators of target firms then improve. The stock premium increased to 29.05%, which exceeded 20% of the average global levels. However, there were also some negative effects for the incomes of the shareholders of the bidder firm, affecting the total financial performance. The stock premium of the bidders achieved -16.76%. Because the majority of public firms were target firms, the M&As increased stock prices but also caused a capital loss for bidder firms.

Zhang Z.X. (2003) selected the principal component analysis method to investigate 4 indexes of M&As firms and evaluated M&As performance for public firms: net income/total assets, earnings per share, net assets yield and prime operating revenue/total assets. The study concluded that performance declined in the year of the transaction and then improved significantly, reaching the best performances in first year after transactions. Nevertheless, in second year after the transactions,

performances declined significantly. In four years, from year before the transaction to second year after transaction, performance enhancement of public firms demonstrated no significant effect.

These findings demonstrate non-unified results that all use the accounting research method; however, the majority of the results indicated that financial performances of the companies declined after M&As transaction. Additional comprehensive studies indicated that the management efficiency of the firm improved although profitability declined after the M&As transactions.

### **3.3.5 Accounting Research Method**

The accounting research method is also the method of financial performance analysis. It generally uses financial indicators that can reflect the performance and capability of company management, for example, ROA (return on assets), ROE (return on equity) and ROS (return on sales), which directly reflect company probability and operating performance.

Meeks (1977) studied 233 M&As transactions in the U.K. between 1964 and 1972, determining that the ROA of bidder firms generally decreased during the transactions. Muelle (1979) stated in a U.S. senate presentation that the performance of companies related to M&As did not improve associated with firms that were not involved in

M&As. The earnings of shareholders were also similar in these two company statuses. Mueller studied the M&As performance in 7 countries: the U.S., the U.K., Germany, France, Sweden Belgium and Netherlands. The findings indicated that the increasing and decreasing profitability of these countries was caused by M&As, which was not consistent with other findings. M&As may lead to the improvement of profitability but may also reduce profitability in different countries. The findings indicated that the M&As may have affected company profitability 3 to 5 years after the transactions. M&As cannot change economic efficiency. Mueller selected ROA, ROE, and ROS to investigate 287 M&As transactions between 1962 and 1972. He determined that performance of firms involved in the M&As deals was poorer than in non-M&As companies while the outcomes were not extremely significant (Mueller, 1980). Mueller also conducted two other studies that examined the largest 100 companies involved in M&As between 1985 and 1989 and determined that the market share of these companies experienced heavy losses (Mueller, 1985, 1989).

Healy et al. (1992) investigated the top 50 M&As transactions between 1979 and 1984 in the U.S. Their findings indicated that the asset turnover of companies improved considerably after the M&As although the marginal operating cash flows did not indicate any significant abnormal growth (Healy et al., 1992). Healy et al. (1997) also investigated the same sample group in 1997, and the results indicated that the growth of cash flow caused by M&As had no more paid premiums than the target firms. Hence, in M&As, the net cash flows were zero, and the stock price movements

during M&As announcements were associated with the cash flows after the M&As transactions.

Dickerson et al. (1997) investigated 613 M&As transactions between 1948 and 1977; the ROA of bidder firms in first 5 years after transactions was 2% lower than for non-M&As companies.

### **3.3.6 The evaluation of M&As performance**

The combined performance of cross-border and domestic transactions may be characterized as follows: event studies focus on short-term movements of the wealth and earnings of shareholders. For instance, most of research begin observation window [-10, 30] on trading day. The observation periods were too short and thus only reflected the short-term effects of M&As transaction on the interests of shareholders. The short-term effects had no conclusive effects on large shareholders and strategic investors.

Many of the studies reached no consistent conclusions. However, the differences indicated that the performance of M&As requires further research.

The M&As transactions always involve numerous stakeholders. The gain or loss of the interests of shareholders and management may not fully reflect the increases and



decreases of the M&As value changes. Studies may focus on behaviour motivation and gains and losses in the interests of other stakeholders and investors in M&A transactions.

Although the abnormal earning returns model in M&A transaction performances observations have been broadly adopted, its adaptation remains limited and affected by several influences. For previous studies, markets model was adopted to assess abnormal return that were based on the volatility of equity prices to evaluate the change in company assets. In the current Chinese stock market, the most significant issue is that the Chinese stock markets are not quite effective. If stock markets itself are ineffective, the equity price movement cannot measure changes in company assets. Although some researchers determined that Chinese equity markets was weakly effective, Wu (1996) observed that growth of Chinese stock market is long-run procedure. The Chinese equity markets remains in the development period, and investors continue to be educated. Obvious gaps exist between the developed market and the emerging market in such areas as information integrity, effectiveness and distribution uniformity. Stock may be simply affected by various factor. Wu examined conclusions that the Chinese stock market had become weakly efficient. From another perspective, the Chinese equity market may appear to be less effective; however, the massive majorities of public firms presently have several non-tradable stocks, and non-tradable shareholder may not obtain or lose from equity markets. Therefore, it is challenging to measure the changes in the interests of non-tradable shareholders

because of the stock price volatility of public companies. The performance of public companies may not be accurately measured.

The prices study methods stated is an approach to assess corporation's operating performances. Furthermore, alternative approach is to take accounting and financial data to process comparative analysis (Parrino and Harris, 1999). While accounting profits goal is regularly manipulated, an empirical study of Chen and Liu (1999) observed that surplus digital data of Chinese public company reporting had strong credibility. In addition, they believed that the accounting data manipulation was only temporary and that the regulations would become tighter. Over a longer period of time, a company's performance should be reflected in its financial statements. Therefore, the research notes the importance of financial accounting data for the verification of the performance of public companies before and after M&As transactions. For more objective and accurate results, the research may follow the process below.

First, select Chinese public companies, use numerous factors to screen the M&A transactions, and collect equity price data before and after the date of M&As announcement.

Second, use the factors to test the effectiveness of public companies' performance and stock price volatility.

Third, test in different time periods: 1 day before and after the M&A announcement, 3 days before and after M&A announcements, and 5 days before and after M&A announcements to test the factors and construct a comprehensive evaluation model. Then measure the composite performance of the stock prices of each public company in these different periods before and after the M&As announcement.

Finally, list the correlations of each factor related to M&A performance, and based on the outcomes, summarize the best execution of M&As transactions.

Previous studies on the performance of M&As transactions indicated that in term of M&A theories, the U.S., Europe and other developed countries experienced multiple waves of M&As. The transactions were quite active during those periods. These areas provided a large quantity of transaction data for research to investigate and develop the relative theories. The majorities of researches on M&A performances used broad event studies method and the accounting analysis method. These two methods may achieve similar results although when it comes time to draw conclusions, the fundamental question of whether M&As create value cannot be consistently answered for many different reasons.

The limitations of each study, including this dissertation, may dictate a narrower direction for further research on Chinese M&As. Using different methods to assess the performance of M&A transactions separately has advantages and disadvantages.

However, it must be accepted that different methods help to identify different results. The selection of the sample in the Chinese market remains relatively small, and the time was relatively short. The majority of studies sought to address M&A results and methods; this dissertation attempts to help Chinese investors and foreign investors make decisions in the Chinese public market.

### **3.4 Results**

#### **3.4.1 Summary Statistics**

##### **3.4.2.1 Entire Sample**

Table 3.1 presents the summary statistics for entire sample of Chinese acquirers engaging in cross-border M&As. This table indicates yearly transaction volume and the value of transactions. The second column compares the number of public target and non-public target transactions. In the sample, only 18% of target firms were publicly listed, and 82% of target firms were not public companies. The last column presents the breakdown of cumulative abnormal returns by year.

[Insert Table 3.1 here]

A distinctive portion of this table indicates a significant increase in the value and number of transactions since 2006 and quite an active period after 2012; the

transaction volume and the value of transactions remained high between 2013 and 2016. This related to the Chinese opening-up policy, which included supportive policies: SAFE issued offshore investment guidelines in 2009,<sup>6</sup> and the Ministry of Commerce issued an administrative approach in 2014.<sup>7</sup> These regulations guided Chinese institutions to invest in overseas markets in a regulated fashion. For the method of payment, the majority of Chinese investors chose to pay without cash. The cumulative abnormal returns performed better after 2011, and before that, their performance was negative and volatile. The financial crisis in 2007 caused a poor CAR performance, consistent with the global trend; however, this was also an opportunity for numerous assets to be valued cheaper (Chor and Manova, 2012 and Grave et al., 2012). Chinese companies began to buy overseas assets during this period, leading to the high trading volume. In the early stages, the majority of transactions were not extremely successful although there were many mega-deals conducted in 2007 that reaped rewards in 2011.

#### **3.4.2.2 Transaction Distribution**

Panel A of Table 3.2 reports numbers and proportions of transactions that Chinese acquirers made in the twelve major industries. The results indicate that bidding

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<sup>6</sup> SAFE (State Administration of Foreign Exchange) issued “Regulations of Domestic Institutions Overseas Direct Investment on Foreign Exchange” on 13 July 2009.

<sup>7</sup> The Ministry of Commerce issued “Offshore Investment Management Approach” Document No.3 in 2014.

companies were generally focused on industrials, materials and high technology. Panel B of Table 4.2 reports numbers and proportions of transactions for foreign targets (excluding China) in the twelve major industries. The results indicate that Chinese buyers preferred companies from industrials, materials and financials. Panel C of Table 4.2 reports numbers and proportions of transactions for foreign targets that were divided into four geographic areas. The results indicate that the most target firms were located in Asia-Pacific.

[Insert Table 3.2 here]

The major industry sectors of acquirers and targets were highly matched, suggesting that numerous transactions occurred within the same industry. Within the Asia-Pacific targets, 36% (68 transactions) were from Hong Kong because Hong Kong is always exposed to global investors and there is no capital monitoring. Hong Kong became the first priority platform for Chinese investors to access the global market (Zhao, 2003; Ruyi et al., 2012). European countries and the U.S. were also primary destinations of Chinese buyers because of the more effective financial systems, legal protections and tax transparency that reduced the risk for international investors (Zhang, 2017; Anderson and Sutherland, 2015). From a company perspective, the E.U. and U.S. companies had better corporate governance, financial performance, complementarity and technology access in those developed markets (Kashif and Sardar, 2013; Tang, 2015).

### 3.4.2.3 Univariate Test

Table 3.3 presents summary statistics for entire sample and univariate comparison between choosing public and private target firms. In the sample, 18% of target firms were publicly listed; more transactions traded with non-public firms (82% of the sample).

[Insert Table 3.3 here]

Panel A of Table 3.3 indicates both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions acquiring public targets was 0.04% (t=1.89) and 0.02% (t=1.90), respectively; the mean and median CAR [-2, 2] for transactions acquiring private targets was 0.50% (t=2.02) and 0.36% (t=2.52), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -0.46% (t=2.07) on average. Moreover, the mean and median CAR [-5, 5] for transactions acquiring public targets was 0.09% (t=2.03) and 0.07% (t=2.01), respectively; the mean and median CAR [-5, 5] for transactions acquiring private targets was 0.53% (t=2.08) and 0.55% (t=2.88), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -0.44% (t=2.05) on average.

Panel B of Table 3.3 compares acquirer characteristics for transactions acquiring public and non-public overseas targets. The panel clearly identifies the differences in financial performance for these two groups. First, companies acquiring public targets had higher debt levels. Second, the companies acquiring public targets had better earning capacity with a higher ROE but a lower ROA, indicating a poorer quality of assets, which is consistent with the higher leverage. Third, the companies acquiring private targets had a higher P/E valuation in the Chinese stock market. Fourth, the companies acquiring public targets had much higher EBITDA and EBITDA/share, which indicates better financial and operational performances. Finally, the companies acquiring public targets had much higher total assets and sales, which indicate that size and business of these companies were larger. Overall, the differences in leverage, ROE, ROA, P/E and EBITDA/share were significant.

Panel C of Table 3.3 indicates transaction characteristics for transactions acquiring public and non-public overseas targets. The mean and median market value for acquirer companies acquiring public targets was much higher than for the acquirer companies acquiring private targets. The value of transactions acquiring public targets was significantly higher than the value of transactions acquiring private targets. The mean and median of relative size for transactions of public and private target companies were 1.78 (0.57) and 1.57 (0.73), respectively. The relative size of transactions acquiring private targets was significantly smaller than the relative size of transactions acquiring public targets. According to the comparisons of market value



and transaction value, it may be concluded that larger companies tended to acquire larger overseas public targets and smaller companies tended to acquire smaller overseas private targets.

In summary, Table 3.3 demonstrates that transactions acquiring private targets created significantly higher short-term returns. This result is consistent with hypothesis of Chapter 3. In fact, these transactions were conducted with smaller companies that had limited capital and liquidity to buy public companies; however, smaller companies were more active in business and in addressing growth needs. This result explains why there were more transactions acquiring private companies. Larger companies demonstrated a stronger financial performance and capital-raising capability, which encouraged them to acquire foreign public firms. These results are consistent with existing studies by Chang (1998) and Da Silva Rosa et al. (2004). Netter et al. (2011) identified evidence of transaction characteristics such as the size of transactions, the amount of transactions and the significance of non-publicly owned firms and cross-border acquisitions. They observed that large transactions compose a significant portion of transaction values, and they concluded that for the aggregate market, all M&A activity increases overall wealth and that acquirer's benefit in most takeovers although acquirer announcements create returns.

### **3.4.2 Regional Univariate Test**

#### **3.4.2.1 North America**

Table 3.4 presents summary statistics for entire sample and univariate comparison between choosing public and private target firms in North America. In the sample, 18% of target firms were publicly listed, and there were more transactions traded with non-public firms (82% of the sample).

[Insert Table 3.4 here]

Panel A of Table 3.4 indicated both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions acquiring public targets was -1.88% ( $t=-1.95$ ) and 1.23% ( $t=-1.79$ ), respectively; the mean and median CAR [-2, 2] for transactions acquiring private targets was -0.80% ( $t=-2.96$ ) and -0.21% ( $t=-2.67$ ), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -1.08% ( $t=2.68$ ) on average. The mean and median CAR [-5, 5] for transactions acquiring public targets were -2.56% ( $t=-2.24$ ) and -1.87% ( $t=-1.97$ ), respectively; the mean and median CAR [-5, 5] for transactions acquiring private targets was -1.35% ( $t=-2.96$ ) and -0.72% ( $t=-2.85$ ), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -1.21% ( $t=2.87$ ) on average.

Panel B of Table 3.4 compares acquirer characteristics for transactions acquiring public and non-public North American targets. Panel B compares the financial performance of the two groups. First, companies acquiring public targets had higher debt levels. Second, the companies acquiring private targets had better earning capacity with higher ROE and ROA, which suggests better assets. Third, the companies acquiring private targets had higher P/E valuation in the Chinese stock market. Fourth, the companies acquiring public targets had much higher EBITDA and EBITDA/share, indicating better financial and operational performance. Finally, the companies acquiring public targets had much higher total assets and sales, indicating larger size and more business. Overall, the differences in leverage, ROE, ROA, P/E, EBITDA/share and total assets were significant.

Panel C of Table 3.4 presents the characteristics of transactions acquiring public and non-public North American targets. The mean and median of market value for acquirer companies acquiring public targets were much higher than for acquirer companies acquiring private targets. The value of transactions for acquiring public targets was significantly higher than the value of transactions acquiring private targets. The mean and median of relative size for transactions of public and private target companies were 0.37 (0.53) and 0.74 (1.58), respectively. The relative size of transactions acquiring private targets was significantly smaller than the relative size of transactions acquiring public targets. According to the comparisons of market value and transaction value, larger companies tended to acquire larger overseas public targets,

and smaller companies tended to acquire smaller overseas private targets. This result is consistent with the entire sample

To summarize, Table 3.4 demonstrates that transactions acquiring private targets create significantly higher short-term returns. This result is not consistent with hypothesis of Chapter 3. Although these transactions occur with smaller companies that have limited capital and liquidity to buy public companies, smaller companies are more active in business and focusing on growth; the higher ROE and ROA also support this finding. This result explains why there are more transactions to acquire private companies. Larger companies have stronger financial performance and capital-raising capability, which encourages them to acquire foreign public firms.

#### **3.4.2.2 Pan-Europe**

Table 3.5 demonstrates summary statistics for entire sample and univariate comparison between choosing public and private target firms. In the sample, 14% of target firms were publicly listed, and more transactions occurred with non-public firms (86% of the sample).

[Insert Table 3.5 here]

Panel A of Table 3.5 indicates both 5-day and 11-day abnormal returns for listed

Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions acquiring public targets was 1.40% (t=2.33) and 1.22% (t=2.53), respectively; the mean and median CAR [-2, 2] for transactions acquiring private targets was 1.13% (t=1.79) and 0.78% (t=1.84), respectively. Transactions acquiring public targets outperformed transactions acquiring private targets by 0.27% (t=1.77) on average. Moreover, the mean and median CAR [-5, 5] for transactions acquiring public targets was 2.00% (t=2.71) and 1.82% (t=2.81), respectively; the mean and median CAR [-5, 5] for transactions acquiring private targets was 1.23% (t=1.97) and 0.93% (t=1.88), respectively. Transactions acquiring public targets outperformed transactions acquiring private targets by 0.76% (t=1.85) on average.

Panel B of Table 3.5 compares acquirer characteristics of transactions acquiring public and non-public overseas targets. The panel clearly identifies the difference between those two types of companies in financial performance. First, companies acquiring public targets had much higher debt levels. Second, the companies acquiring private targets had higher ROE but lower ROA. Third, the companies acquiring private targets had higher P/E valuation in the Chinese stock market. Fourth, the companies acquiring public targets had much higher EBITDA and close EBITDA/share, indicating better financial and operational performance. Finally, the companies acquiring public targets had much lower total assets but higher sales, indicating a larger size and more business for these companies. Overall, the differences in P/E, EBITDA and total assets were significant.

Panel C of Table 3.5 presents the characteristics of transactions acquiring public and non-public overseas targets. The mean and median of market value for acquirer companies acquiring public targets were much higher than for the acquirer companies acquiring private targets. The value of transactions acquiring public targets was significantly higher than the value of transactions acquiring private targets. The mean and median of relative size for transactions of public and private target companies were 4.11 (2.44) and 2.10 (0.91), respectively. The relative size of transactions acquiring private targets was significantly smaller than the relative size of transactions acquiring public targets. According to the comparisons of market value and transaction value, larger companies tended to acquire larger overseas public targets, and smaller companies tended to acquire smaller overseas private targets. This result is consistent with the entire sample

To summarize, Table 3.5 demonstrates that transactions acquiring public targets create significantly higher short-term returns. This result is not consistent with hypothesis of Chapter 3. In fact, the European market has strong labour unions and legal protection. Many factors determine investment returns. Anderson et al. (2009) claimed that bidders are forced to offer higher premiums and targets have relatively greater bargaining power in strong investor protection environments. This may explain why the results are different in the European market.

### 3.4.2.3 Asia-Pacific

Table 3.6 demonstrates summary statistics for entire sample and univariate comparison between choosing public and private target firms in Asia-Pacific. In the sample, 22% of target firms were publicly listed, and more transactions occurred with non-public firms (78% of the sample).

[Insert Table 3.6 here]

Panel A of Table 3.6 presents both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions acquiring public targets was 0.27% (t=1.74) and 0.20% (t=1.78), respectively; the mean and median CAR [-2, 2] for transactions acquiring private targets was 0.37% (t=2.12) and 0.33% (t=2.38), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -1.10% (t=2.95) on average. Moreover, the mean and median CAR [-5, 5] for transactions acquiring public targets was 0.43% (t=2.03) and 0.44% (t=2.08), respectively; the mean and median CAR [-5, 5] for transactions acquiring private targets were 0.51% (t=2.55) and 0.38% (t=2.88), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -0.08% (t=2.00) on average.

Panel B of Table 3.6 compares acquirer characteristics of transactions acquiring

public and non-public Asia-Pacific targets. The panel clearly identifies the difference between those two types of companies in financial performance. First, companies acquiring public targets had higher debt levels. Second, the companies acquiring private targets had similar ROE and ROA. Third, the companies acquiring public targets had slightly higher P/E valuation in the Chinese stock market. Fourth, the companies acquiring public targets had much higher EBITDA and EBITDA/share, indicating better financial and operational performance. Finally, the companies acquiring public targets had much higher total assets and sales, suggesting that size and business of these companies were larger. Overall, the differences in ROE, ROA, P/E, EBITDA and EBITDA/share were significant.

Panel C of Table 3.6 presents transaction characteristics for transactions acquiring public and non-public Asia-Pacific targets. The mean and median of market value for acquirer companies acquiring public targets were much higher than the acquirer companies acquiring private targets. The value of transactions acquiring public targets was significantly higher than the value of transactions acquiring private targets. The mean and median of relative size for transactions of public and private target companies were 1.38 (1.01) and 1.50 (1.05), respectively. The relative size of transactions acquiring private targets was significantly smaller than the relative size of transactions acquiring public targets. According to the comparisons of market value and transaction value, larger companies tended to acquire larger overseas public targets, and smaller companies tend to acquire smaller overseas private targets. This



result is consistent with the entire sample

To summarize, Table 3.6 indicates that transactions acquiring private targets created significantly higher short-term returns; this result is consistent with hypothesis of Chapter 3. Although these transactions occurred with smaller companies that had limited capital and liquidity to buy public companies, smaller companies are more active in business and address growth needs. Higher ROE and ROA also support this finding. This result explains why there are more transactions to acquire private companies. Larger companies have stronger financial performance and capital-raising capability, which encourages them to acquire foreign public firms.

#### **3.4.2.4 Other Countries**

Table 3.7 demonstrates summary statistics for entire sample and univariate comparison between choosing public and private target firms in other countries. In the sample, 8% of target firms were publicly listed although more transactions occurred with non-public firms (92% of the sample).

[Insert Table 3.7 here]

Panel A of Table 3.7 indicates both 5-day and 11-day abnormal returns for listed Chinese acquirer companies. The mean and median CAR [-2, 2] for transactions

acquiring public targets was -0.26% ( $t=-2.14$ ) and -0.12% ( $t=-1.82$ ), respectively; the mean and median CAR [-2, 2] for transactions acquiring private targets was 2.01% ( $t=2.67$ ) and 0.94% ( $t=2.26$ ), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -2.26% ( $t=2.45$ ) on average. The mean and median CAR [-5, 5] for transactions acquiring public targets was -0.66% ( $t=-2.58$ ) and -0.38% ( $t=-2.29$ ), respectively; the mean and median CAR [-5, 5] for transactions acquiring private targets was 2.71% ( $t=2.84$ ) and 1.49% ( $t=2.47$ ), respectively. Transactions acquiring public targets underperformed transactions acquiring private targets by -2.37% ( $t=2.85$ ) on average.

Panel B of Table 3.7 compares acquirer characteristics of transactions acquiring public and non-public targets in other countries. The panel clearly identifies the differences between those two types of companies in financial performance. First, companies acquiring public targets had higher debt levels. Second, the companies acquiring private targets had better earning capacity with slightly higher ROA but lower ROE. Third, the companies acquiring public targets had much higher P/E valuation in the Chinese stock market. Fourth, the companies acquiring private targets had much higher EBITDA and EBITDA/share, indicating better financial and operational performance. Finally, the companies acquiring public targets had much higher total assets but much lower sales, which may explain why companies acquiring public targets are experiencing greater business growth. Overall, the differences in leverage, ROE, ROA, P/E, EBITDA, EBITDA/share, total assets and sales were

significant.

Panel C of Table 3.7 indicates characteristics of transactions acquiring public and non-public targets in other countries. The mean and median of market value for acquirer companies acquiring public targets were much higher than the acquirer companies acquiring private targets. The value of transactions for acquiring public targets was significantly higher than the value of transactions for acquiring private targets. The mean and median of relative size for transactions financed with cash and non-cash were 0.91 (1.03) and 1.99 (1.69), respectively. The relative size of transactions acquiring private targets was significantly smaller than the relative size of transactions acquiring public targets. According to the comparisons of market value and transaction value, therefore, larger companies tended to acquire larger overseas public targets, and smaller companies tended to acquire smaller overseas private targets. This result is consistent with the entire sample.

To summarize, Table 3.7 indicates that transactions acquiring private targets created significantly higher short-term returns. This result is consistent with hypothesis of Chapter 3. Although these transactions occurred with smaller companies that had limited capital and liquidity to buy public companies, smaller companies were more active in business and addressing growth needs. The higher sales also supported this finding. This result explains why there were more transactions to acquire private companies. Larger companies had stronger financial performance and capital-raising

capability, which encouraged them to acquire foreign public firms. Overall, excepting Pan-European transactions, the other three areas of transactions had generally similar results.

### 3.4.3 Regression Analysis

Table 3.8 illustrates the results of short-term regression analysis. The dependent variables were the CAR [-2, 2] and CAR [-5, 5] of Chinese public bidding companies. The key explanatory variable was the public status of target firms. The public status included overseas public target firms, and the rest were non-public, which included private, joint venture, and subsidiary.

[Insert Table 3.8 here]

The CAR [-2, 2] and CAR [-5, 5] indicate that public targets are significantly negative, approximately -0.49% and -0.73% each, compared with ~~the entire~~private sample. This result indicated a negative relation between market response before and after an acquisition announcement in public firm targets. The control variables, listed in Table 3.8, included target nations, acquirer financial performance and different target industries. The results also indicated that when a target was from developed countries or was in finance, technology, real estate or the retail industry, the CAR was significantly positive. The results were also significantly negative when the acquirer

had a high leverage ratio, high return on equity and high market value. This result indicated that larger firms performed worse when acquiring large overseas public companies; the results for private firm targets were more favourable, which is consistent with Hypothesis 1 in this chapter. This result is consistent with Chang (1998), Draper and Paudyal (2006) in the U.K. market, and Da Silva Rosa et al. (2004). Fuller et al. (2002) tested samples of firms that made five or more acquisitions in 1990s for which abnormal return were higher for firm acquiring private firm or subsidiaries than for firm acquiring public firm. It is more difficult to acquire public companies because of the strong competition in the stock market. Public target companies have stronger negotiating power, which causes the bidder company to pay a higher premium in the transactions. This may result in a negative market reaction to short-term returns.

### **3.5 Conclusion**

To summarize, this chapter reviewed existing literature and identified some empirical evidence regarding cross-border M&As of public Chinese firms. Chinese public companies were rewarded with a higher return when acquiring private firms. Previous studies indicated that M&As transactions did generate more return for bidder firms when acquiring private firms. This dissertation identified little evidence consistent with other studies. The Chinese cross-border M&As market only became more active after 2007. This thesis completed and updated research in this field. Therefore, this

thesis may be an essential component in updating the empirical research as evidence of current validity. The outcomes of the research are more specific to the Chinese M&As markets, which is the most active emerging market globally. This dissertation has explored the empirical evidence to examine relevant principles and theories. In addition, in the investor structure difference in China, over 90% of investors are individuals, which causes more volatility. The result may be different when compared with U.S. and European or other developed markets.

The results of this paper demonstrate that cross-border transactions traded with private firms brought higher premiums to Chinese bidder companies because the stock prices of public targets responded to the announcement quickly; buyers normally tend to pay a higher premium. Private targets had no such issues during transactions. The Chinese government also encourages local companies going abroad to utilize techniques and resources. In the regional analysis, only the European market realized a lower return when acquiring private targets although the returns in the U.S. market were also negative, which is consistent with the results of Chapter 2. The transactions in other countries contributed the highest returns, and the returns for the buyer who acquired a public target were significantly negative.

There has been little research on targets' public status in M&As transactions; however, the details of these transactions tend to be confidential. It may also be difficult to reflect all relevant factors in data collection, which is why this dissertation focused on listed

companies. In fact, over 80% of transactions occurred with private companies, and to acquire a public target is difficult. The author attempted to find Chinese evidence in this field to demonstrate this theory.

Nevertheless, as stated above, access to information and data collection remain difficult, preventing a complete observation in this area. In the Chinese cross-border M&As market, majority of transactions are traded by private companies. Their investor information is also confidential. The long-term validity also requires measurement and observation.

The hypotheses were all validated and, according to the empirical results, are quite significant. The significant empirical results adapted to explain the practices and effective findings also support this topic. This dissertation selected an event study to observe and gather the abnormal return in both the pre- and post-announcement periods of M&As. The time frame also significantly affected the results. The author will select a longer period in the future to produce better and more accurate results. In addition, the author will continue to work in the institutional investment field, enabling him to access more confidential information. Additional years of working experience will engender more comprehensive and underlying information to develop new theories and conduct empirical analysis.

## Tables

**Table 3.1. Summary Statistics for the Entire Sample**

This table summarizes the primary characteristics of merger transactions in the entire sample of Chinese acquirers. The sample comprised 465 completed or uncompleted M&As transactions in the cross-border market from 2002 to 2016 in which all acquirers were listed companies in the Shanghai and Shenzhen Stock Exchanges and all targets were worldwide companies (excluding China), either public or private. The first column lists the number of transactions announced year by year from 2002 to 2016. The second column lists the total value of the transactions by year from 2002 to 2016 in USD millions. The third column categorizes the acquirers according to public status. The public refers to companies that are listed on the stock exchange, and non-public refers to company that are private, subsidiaries, joint ventures or government-owned. The fourth column reports the results of the OLS regressions of the acquirer's short-term performance for the entire sample year by year. The sample included all M&A cross-border transactions in which the acquirers were listed companies in the Chinese market from the Thomson One Banker (SDC) transactions database during 2002 to 2016. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistics.



Full		Total	Target Public Status		CARs			
Year	All Sample	Value of Transaction (\$mil.)	Public	Non-public	CAR [-2, 2]		CAR [-5, 5]	
					Mean	t-value	Mean	t-value
2002	5	394.00	2	3	0.0610	(1.40)	0.0730*	(1.81)
2003	4	227.98	1	3	0.0154*	(1.78)	0.0393**	(2.36)
2004	7	80.66	1	6	-0.0211	(-1.10)	-0.0222	(-1.89)
2005	5	54.35	3	2	-0.0079	(-1.22)	-0.0109	(-1.25)
2006	10	4,497.08	3	7	0.0182*	(1.81)	0.0423***	(2.63)
2007	23	10,288.30	4	19	-0.0546***	(-2.47)	-0.1104**	(-2.02)
2008	34	4,639.58	10	24	-0.0637***	(-2.48)	-0.0746**	(-2.02)
2009	29	3,044.09	8	21	0.0163***	(2.68)	0.0941***	(2.88)
2010	37	5,461.94	9	28	-0.0161	(-1.40)	-0.0172	(-1.47)
2011	33	1,282.28	6	27	0.0240***	(2.51)	0.0262***	(2.51)
2012	46	2,908.47	7	39	0.0252***	(2.29)	0.0261***	(2.98)
2013	47	6,622.70	5	42	0.0455***	(2.74)	0.0635***	(2.78)
2014	40	6,579.51	5	35	0.0169*	(1.89)	0.0632**	(2.28)
2015	80	6,349.93	11	69	0.0111	(1.01)	0.0116	(1.64)
2016	65	4,792.63	7	58	0.0121	(1.17)	0.0183	(1.62)
SUM	465	57,223.48	82	383				

### **Table 3.2. Summary Statistics for the Acquirer and Target Sectors and Regions**

Panel A reports the number and proportion of acquirers in 12 industry sectors. Panel B reports the number and proportion of targets in 12 industry sectors. Panel C reports the number and proportion of targets in 4 regional distributions. The region of North America is a continent entirely within the Northern Hemisphere and nearly entirely within the Western Hemisphere. The region of Pan-Europe is a continent that comprises the westernmost portion of Eurasia. Europe is bordered by the Arctic Ocean to the north, the Atlantic Ocean to the west, and the Mediterranean Sea to the south and includes Russia. The region of Asia-Pacific is the portion of the world in or near the Western Pacific Ocean. It typically includes much of East Asia, South Asia, Southeast Asia, and Australasia. The region of other countries includes countries worldwide but not in North America, Pan-Europe or Asia-Pacific. For a list of the countries involved with the sample, please see Appendix 2.2.

<b>Panel A</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Acquirer Industry Sector</b>
21	4.52%	Consumer Products and Services
45	9.68%	Energy and Power
49	10.54%	Financials
22	4.73%	Healthcare
63	13.55%	High Technology
112	24.09%	Industrials
81	17.42%	Materials
8	1.72%	Media and Entertainment
7	1.51%	Real Estate
7	1.51%	Retail
37	7.96%	Consumer Staples
13	2.80%	Telecommunications
<b>465</b>	<b>100.00%</b>	
<b>Panel B</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Target Industry Sector</b>
28	6.02%	Consumer Products and Services
44	9.46%	Energy and Power
72	15.48%	Financials
26	5.59%	Healthcare
59	12.69%	High Technology
92	19.78%	Industrials
77	16.56%	Materials
7	1.51%	Media and Entertainment
3	0.65%	Real Estate
10	2.15%	Retail
31	6.67%	Consumer Staples
16	3.44%	Telecommunications
<b>465</b>	<b>100.00%</b>	
<b>Panel C</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Target Nation</b>
101	21.72%	North America
136	29.25%	Pan Europe
189	40.65%	Asia-Pacific
39	8.39%	Others
<b>465</b>	<b>100.00%</b>	

**Table 3.3. Summary Statistics for the Entire Sample of Transactions Bid on by Public and Private Firms**

This table presents summary statistics for the entire sample of all countries targeting cross-border transactions; the target firms were public and private firms. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

All Countries	All Deals			Public-target (P)			Non-public Target (N)			Difference (P) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	0.42%*** (2.34)	0.33%** (2.16)	465	0.04%* (1.89)	0.02%* (1.90)	82	0.50%** (2.02)	0.36%*** (2.52)	383	-0.46%** (2.07)		-0.34%** (2.03)	
<b>CAR [-5, 5]</b>	0.46%*** (2.41)	0.32%** (2.31)	465	0.09%** (2.03)	0.07%** (2.01)	82	0.53%** (2.08)	0.55%*** (2.88)	383	-0.44%** (2.05)		-0.48%** (2.14)	
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	48.54	47.89	465	56.87	55.20	82	46.75	46.55	383	10.11*	(1.90)	8.65*	(1.87)
<b>ROE</b>	12.95	11.75	465	13.07	12.28	82	12.93	11.89	383	0.14***	(2.41)	0.40***	(2.51)
<b>ROA</b>	7.92	7.00	465	6.41	5.29	82	8.24	7.33	383	-1.83*	(1.91)	-2.03	(-1.72)
<b>P/E</b>	41.23	32.06	465	37.81	23.60	82	41.97	33.39	383	-4.15***	(2.36)	-9.79**	(-1.97)
<b>EBITDA (\$Mil.)</b>	46.39	30.45	465	114.62	71.18	82	31.79	22.57	383	82.84	(1.52)	48.61	(0.00)
<b>EBITDA/share</b>	0.87	0.67	465	0.87	0.62	82	0.87	0.67	383	0.00**	(2.10)	-0.04**	(2.17)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	606.10	147.27	465	1,224.55	253.03	82	473.69	125.67	383	750.86	(1.50)	127.36**	(2.01)
<b>Transaction Value (\$Mil.)</b>	145.04	151.86	465	516.52	276.96	82	65.51	32.79	383	451.01	(1.50)	244.18**	(2.09)
<b>Relative Size</b>	1.60	1.32	465	1.78	0.57	82	1.57	0.73	383	0.21***	(2.34)	-0.17***	(2.41)

**Table 3.4. Summary Statistics for the North American Sample of Transactions Bid on by Public and Private Firms**

This table presents summary statistics for the entire sample of North American targeting cross-border transactions; the target firms were public and private firms. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

North America	All Deals			Public-target (P)			Non-public Target (N)			Difference (P) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	-0.99%*	-1.06%*	101	-1.88%*	-1.23%*	18	-0.80%***	-0.21%***	83	-1.08%***	(2.68)	-1.01%***	(2.04)
	(-1.77)	(-1.95)		(-1.95)	(-1.79)		(-2.69)	(-2.67)					
<b>CAR [-5, 5]</b>	-1.57%*	-1.78%**	101	-2.56%***	-1.87%*	18	-1.35%***	-0.72%***	83	-1.21%***	(2.87)	-1.16%***	(2.73)
	(-1.84)	(-2.18)		(-2.24)	(-1.97)		(-2.96)	(-2.85)					
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	41.25	44.95	101	45.60	48.51	18	40.30	43.54	83	5.30*	(1.88)	4.97	(1.73)
<b>ROE</b>	11.63	10.84	101	9.65	7.83	18	12.06	11.41	83	-2.40*	(1.85)	-3.58*	(1.95)
<b>ROA</b>	7.89	6.75	101	5.83	3.67	18	8.34	7.33	83	-2.51*	(1.76)	-3.67*	(1.89)
<b>P/E</b>	63.83	38.75	101	42.86	24.64	18	68.37	4.08	83	-25.52**	(1.95)	20.56**	(2.06)
<b>EBITDA (\$Mil.)</b>	14.94	14.04	101	38.03	24.43	18	9.93	5.11	83	28.10*	(1.91)	19.31**	(2.16)
<b>EBITDA/share</b>	0.73	0.63	101	0.59	0.44	18	0.76	0.63	83	-0.17*	(1.80)	-0.19*	(1.88)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	182.15	150.17	101	514.85	389.33	18	110.00	51.65	83	404.85	(1.50)	337.69***	(2.42)
<b>Transaction Value (\$Mil.)</b>	101.70	104.00	101	346.90	54.69	18	48.52	10.00	83	298.37	(1.51)	44.69**	(2.25)
<b>Relative Size</b>	0.67	0.69	101	0.37	0.53	18	0.74	1.58	83	-0.37**	(2.14)	-1.06***	(-2.41)

### **Table 3.5. Summary Statistics for the Pan-European Sample of Transactions Bid on by Public and Private Firms**

This table presents summary statistics for the entire sample of Pan-European targeting cross-border transactions; the target firms were public and private firms. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.



Pan Europe	All Deals			Public-target (P)			Non-public Target (N)			Difference (P) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	1.17%*** (2.44)	0.80%** (2.22)	136	1.40%** (2.33)	1.22%*** (2.53)	19	1.13%* (1.79)	0.78%* (1.84)	117	0.27%* (1.77)	(1.77)	0.44%* (1.82)	(1.82)
<b>CAR [-5, 5]</b>	1.34%*** (2.53)	0.88%** (2.32)	136	2.00%*** (2.71)	1.82%*** (2.81)	19	1.23%* (1.97)	0.93%* (1.88)	117	0.76%* (1.85)	(1.85)	0.89%* (1.92)	(1.92)
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	49.07	49.93	136	68.49	64.28	19	45.92	46.27	117	22.58** (2.33)	(2.33)	18.01*** (2.42)	(2.42)
<b>ROE</b>	14.23	12.56	136	16.95	16.48	19	13.79	12.14	117	3.17* (1.82)	(1.82)	4.34* (1.76)	(1.76)
<b>ROA</b>	8.46	7.70	136	5.85	4.17	19	8.88	7.86	117	-3.04* (1.78)	(1.78)	-3.69* (1.94)	(1.94)
<b>P/E</b>	38.39	29.23	136	31.79	16.55	19	39.46	30.80	117	-7.67** (2.11)	(2.11)	-14.24 (1.61)	(1.61)
<b>EBITDA (\$Mil.)</b>	93.59	72.37	136	253.25	99.32	19	67.66	32.94	117	185.60 (1.54)	(1.54)	66.38 (1.46)	(1.46)
<b>EBITDA/share</b>	0.97	0.62	136	1.11	0.53	19	0.95	0.67	117	0.16** (2.03)	(2.03)	-0.14* (1.75)	(1.75)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	1,291.51	633.90	136	2,625.80	1,074.64	19	1,074.83	427.36	117	1,550.97 (1.64)	(1.64)	647.28 (1.63)	(1.63)
<b>Transaction Value (\$Mil.)</b>	259.05	119.63	136	1,524.86	566.95	19	53.49	15.26	117	1471.38** (2.17)	(2.17)	551.69** (2.03)	(2.03)
<b>Relative Size</b>	2.38	1.87	136	4.11	2.44	19	2.10	0.91	117	2.01** (2.02)	(2.02)	1.52*** (2.41)	(2.41)

**Table 3.6. Summary Statistics for the Asia-Pacific Sample of Transactions Bid on by Public and Private Firms**

This table presents summary statistics for the entire sample of Asia-Pacific targeting cross-border transactions; the target firms were public and private firms. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

Asia-Pacific	All Deals			Public-target (P)			Non-public Target (N)			Difference (P) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	0.35%** (2.08)	0.26%* (1.79)	189	0.27% (1.74)	0.20%* (1.78)	42	0.37%** (2.12)	0.33%*** (2.38)	147	-0.10%* (1.95)		-0.13%** (2.06)	
<b>CAR [-5, 5]</b>	0.49%** (2.24)	0.42%*** (2.13)	189	0.43%** (2.03)	0.44%*** (2.08)	42	0.51%** (2.25)	0.38%*** (2.88)	147	-0.08%* (2.00)		0.07%** (2.16)	
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	51.39	49.60	189	56.40	56.57	42	49.96	48.55	147	6.44	(1.61)	8.01*	(1.78)
<b>ROE</b>	12.51	12.48	189	12.66	11.72	42	12.46	12.54	147	0.19***	(2.45)	-0.82	(1.51)
<b>ROA</b>	7.35	6.54	189	6.88	5.45	42	7.49	6.81	147	-0.61**	(2.02)	-1.36***	(2.59)
<b>P/E</b>	35.61	27.42	189	38.27	27.42	42	34.85	28.40	147	3.43	(1.55)	-0.98	(1.53)
<b>EBITDA (\$Mil.)</b>	38.42	33.93	189	92.34	47.01	42	23.01	11.62	147	69.33***	(2.68)	35.40**	(2.31)
<b>EBITDA/share</b>	0.86	0.68	189	0.91	0.74	42	0.85	0.68	147	0.06**	(2.24)	0.06**	(2.28)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	458.77	245.46	189	975.01	680.01	42	311.27	215.43	147	663.74	(1.50)	464.58**	(2.07)
<b>Transaction Value (\$Mil.)</b>	112.41	74.45	189	165.07	81.63	42	97.37	49.12	147	67.69	(1.66)	32.51*	(1.78)
<b>Relative Size</b>	1.48	1.63	189	1.38	1.01	42	1.50	1.05	147	-0.12***	(2.44)	-0.04***	(2.41)

**Table 3.7. Summary Statistics for the Other Countries Sample of Transactions Bid on by Public and Private Firms**

This table presents summary statistics for the entire sample of other countries targeting cross-border transactions; the target firms were public and private firms. Panel A presents acquirer short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports acquirer firm characteristics. Leverage is measured as total debt over total capital at the fiscal year end before the announcement. ROE is measured as return on equity at the fiscal year end before the announcement. ROA is measured as return on assets at the fiscal year end before the announcement. P/E is measured as price to earnings ratio at the fiscal year end before the announcement. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement. EBIDA/share is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement divided by number of shares the last trading day before the announcement. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, cash-financed transactions and non-cash-financed transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between cash-financed transactions and non-cash-financed transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

Other Countries	All Deals			Public-target (P)			Non-public Target (N)			Difference (P) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	1.83%*** (2.55)	1.66%** (2.05)	39	-0.26%** (-2.14)	-0.12%* (-1.82)	3	2.01%*** (2.67)	0.94%** (2.26)	36	-2.26%***	(2.45)	-1.06%**	(2.30)
<b>CAR [-5, 5]</b>	2.45%*** (2.99)	1.88%** (2.10)	39	-0.66%*** (-2.58)	-0.38%** (-2.29)	3	2.71%*** (2.84)	1.49%*** (2.47)	36	-3.37%***	(2.85)	-1.87%***	(2.68)
<b>Panel B: Firm Characteristics</b>													
<b>Leverage</b>	51.72	51.35	39	57.30	62.20	3	51.25	51.35	36	6.05***	(2.18)	10.85*	(1.75)
<b>ROE</b>	14.10	12.77	39	14.81	15.16	3	14.04	12.59	36	0.77***	(2.40)	2.58	(1.58)
<b>ROA</b>	8.86	8.53	39	6.97	10.40	3	9.02	8.46	36	-2.04***	(2.35)	1.95*	(1.80)
<b>P/E</b>	19.89	16.05	39	39.21	55.32	3	18.28	15.77	36	20.92	(1.51)	39.55*	(1.82)
<b>EBITDA (\$Mil.)</b>	1.94	1.75	39	8.09	19.05	3	1.42	19.49	36	6.67**	(2.04)	-0.44	(1.71)
<b>EBITDA/share</b>	0.94	0.73	39	0.61	0.41	3	0.97	0.74	36	-0.36*	(1.98)	-0.34**	(2.09)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	27.84	16.39	39	101.74	41.42	3	21.68	13.47	36	80.06	(1.51)	27.95*	(1.81)
<b>Transaction Value (\$Mil.)</b>	17.81	13.17	39	68.34	88.34	3	13.60	5.75	36	54.73	(1.51)	82.58*	(1.75)
<b>Relative Size</b>	1.90	1.79	39	0.91	1.03	3	1.99	1.69	36	-1.07**	(2.22)	-0.67***	(-2.41)

**Table 3.8 OLS Regressions of Acquirer Short-Term Performance**

This table presents the results of OLS regressions of acquirer short-term performance for the entire sample. In these models, this chapter regresses acquirer CAR [-2, 2] and CAR [-5, 5] against a number of explanatory variables. The key explanatory variable is public status (Public). The public dummy variable equals 1 if the target is a publicly listed firm; the dummy variable equals 0 if the target is not a publicly listed firm. For transaction characteristics, other control variables include diversification and nation. The diversification variable equals 1 if the acquirer and target were classified as being in the same industry; the dummy variable equals 0 if the acquirer and target are not classified as being in the same industry. The nation variable equals 1 if the target is from a developed market; the dummy variable equals 0 if the target is from an emerging market. For firm characteristics, other control variables include the proportion of top 10 shareholders and the proportion of largest shareholder. Leverage is measured as total debt over total capital at fiscal year-end before the announcement. ROE is measured as return on equity at t fiscal year end before the announcement. P/E is measured as price to earnings ratio at fiscal year-end before the announcement. LnSize is the natural logarithm of the market value of equity measured at fiscal year-end before the announcement. LnAsset is the natural logarithm of total assets measured at fiscal year-end before the announcement. LnSales is the natural logarithm of total sales measured at fiscal year-end before the announcement. For industry sector characteristics, other control variables included 12 different industries. Industry1 dummy equals 1 if the bidding firm was classified in the sector of Financials. Industry2 dummy equals 1 if the bidding firm was classified in the sector of Consumer Products and Services. Industry3 dummy equals 1 if the bidding firm was classified in the sector of Consumer Staples. Industry4 dummy equals 1 if the bidding firm was classified in the sector of Energy and Power. Industry5 dummy equals 1 if the bidding firm was classified in the sector of Healthcare. Industry6 dummy equals 1 if the bidding firm was classified in the sector of High Technology. Industry7 dummy equals 1 if the bidding firm was classified in the sector of Industrials. Industry8 dummy equals 1 if the bidding firm was classified in the sector of Materials. Industry9 dummy equals 1 if the bidding firm was classified as the sector of Media and Entertainment. Industry10 dummy equals 1 if the bidding firm was classified in the sector of Real Estate. Industry11 dummy equals 1 if the bidding firm was classified in the sector of Retail. Industry12 dummy equals 1 if the bidding firm was classified in the sector of Telecommunications. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

	CAR [-2, 2]	CAR [-5, 5]
<b>Public</b>	-0.4910*** (-3.13)	-0.7326*** (-3.97)
<b>Diversification</b>	-0.0802 (-1.07)	-0.0986 (-1.14)
<b>Nation</b>	0.2496*** (2.43)	0.2867*** (2.56)
<b>Top 10</b>	0.1298	0.1667

	(1.31)	(1.67)
<b>Top 1</b>	0.0766	0.0832
	(1.01)	(1.06)
<b>Leverage</b>	-0.2412**	-0.3110**
	(-2.27)	(-2.31)
<b>ROE</b>	-0.2406***	-0.3211***
	(-2.38)	(-2.64)
<b>PE</b>	0.0869	0.0951
	(1.09)	(1.15)
<b>LnSize</b>	-0.1943**	-0.1962**
	(-2.21)	(-2.31)
<b>LnAsset</b>	0.1538	0.1626
	(1.59)	(1.64)
<b>LnSales</b>	0.1650	0.1693
	(1.68)	(1.72)
<b>Industry1</b>	0.2811***	0.3532***
	(2.47)	(2.95)
<b>Industry2</b>	0.0889	0.0903
	(1.05)	(1.11)
<b>Industry3</b>	0.1236	0.1534
	(1.47)	(1.61)
<b>Industry4</b>	0.1682	0.1819
	(1.65)	(1.73)
<b>Industry5</b>	0.1584	0.1738
	(1.68)	(1.73)
<b>Industry6</b>	0.2495**	0.3220***
	(2.35)	(2.65)
<b>Industry7</b>	0.1306	0.1432
	(1.24)	(1.29)
<b>Industry8</b>	0.1303	0.1307
	(1.17)	(1.18)
<b>Industry9</b>	0.0910	0.0979
	(1.07)	(1.13)
<b>Industry10</b>	0.1948*	0.2556**
	(1.92)	(2.29)
<b>Industry11</b>	0.2728***	0.2996***
	(2.65)	(2.79)
<b>Industry12</b>	0.1353	0.1397
	(1.49)	(1.51)
<b>Constant</b>	0.1987	0.2503
	(2.17)	(2.34)
<hr/>		
<b>N</b>	465	465
<b>R Square</b>	0.161	0.229

<b>Adjusted R Square</b>	0.153	0.213
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## Appendix

### Appendix 3.1. Definition of Control Variables

The table below defines control variables in the regressions of the chapter. The definition of each variable is presented in the table. Panels A, B and C present transaction characteristics, company characteristics and industry sectors, respectively.

Variable	Definition
Panel A: Transaction Characteristics	
Cash	Dummy variable equals 1 if the deal is fully paid by cash; dummy variable equals 0 if the deal is not fully paid by cash.
Diversification	Dummy variable equals 1 if the acquirer and target are classified as the same industry; dummy variable equals 0 if the acquirer and target are not classified as the same industry.
Nation	Dummy variable equals 1 if the target is from developed market; dummy variable equals 0 if the target is from emerging market.
Panel B: Company Characteristics	
Top 10	The proportion of top 10 shareholders.
Top 1	The proportion of largest shareholder.
Leverage	Total debt over total capital.
ROE	Return on equity.
PE	Price to Earnings
Lnsize	The logarithm of the acquirer market value at the fiscal year end before the announcement.
Lnasset	The logarithm of the acquirer total asset at the fiscal year end before the announcement.
Lnsales	The logarithm of the acquirer sales revenue at the fiscal year end before the announcement.

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Panel C: Industry Sector

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Industry 1	The acquirer is classified by Financials (FINANCE).
Industry 2	The acquirer is classified by Consumer Products and Services (CPS).
Industry 3	The acquirer is classified by Consumer Staples (STAPLES).
Industry 4	The acquirer is classified by Energy and Power (ENERGY).
Industry 5	The acquirer is classified by Healthcare (HEALTH).
Industry 6	The acquirer is classified by High Technology (HT).
Industry 7	The acquirer is classified by Industrials (IND).
Industry 8	The acquirer is classified by Materials (MATERLS).
Industry 9	The acquirer is classified by Media and Entertainment (MEDIA).
Industry 10	The acquirer is classified by Real Estate (REALEST).
Industry 11	The acquirer is classified by Retail (RETAIL).
Industry 12	The acquirer is classified by Telecommunications (TELECOM).

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### Appendix 3.2. Definition of Regions of Entire Sample

The region of North America is a continent entirely within the Northern Hemisphere and nearly completely within the Western Hemisphere. The Region of Pan-Europe is a continent that comprises the westernmost portion of Eurasia. Europe is bordered by the Arctic Ocean to the north, the Atlantic Ocean to the west, and the Mediterranean Sea to the south and includes Russia. The region of Asia-Pacific is the portion of the world in or near the Western Pacific Ocean. It typically includes much of East Asia, South Asia, Southeast Asia, and Australasia. The region of other countries is countries worldwide but not in North America, Pan-Europe and Asia-Pacific. The group of countries is the sample of transactions where the target firms are located.

Target Nation	Group of Countries
North America	British Virgin, Canada, Cayman Islands, Dominican Rep, United States
Pan Europe	Austria, Belarus, Belgium, Cyprus, Czech Republic, Denmark, France, Germany, Hungary, Ireland-Rep, Italy, Lithuania, Netherlands, Norway, Poland, Portugal, Russian Fed, Serbia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom
Asia-Pacific	Australia, Cambodia, Hong Kong, India, Indonesia, Japan, Laos, Macau, Malaysia, Mongolia, New Zealand, Singapore, South Korea, Taiwan, Thailand, Vietnam

**Others**

Argentina, Brazil, Chad, Chile, Colombia, Dem Rep Congo, Gabon, Iran, Iraq, Israel, Jamaica, Kazakhstan, Kyrgyzstan, Lesotho, Mozambique, Nigeria, Oman, Pakistan, Peru, Philippines, Qatar, Saudi Arabia, South Africa, Tajikistan, Uganda, Uzbekistan

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## **4. Chapter IV: The Chinese Target of Cross-border Takeovers**

### **4.1 Introduction**

This chapter investigates Chinese listed companies acquired by overseas companies. The control variable was whether the bidder firm is a financial institution. In the Chinese M&As market, more than half of transactions were conducted by foreign financial companies.

Antoniou et al. (2007) reached conclusions that were opposite to Fuller et al. (2002), who claimed that acquiring private and subsidiary companies created value for the bidding companies. There are dependable assumptions regarding bidder shareholder property effects that cannot be identified in short-term event studies. There are many studies that measure stock returns received by targets and acquiring companies before and after the acquiring announcement. Several studies observed that target firms' shareholder obtain positive and significant abnormal return in a short period before and after the acquiring announcements. The predictable result is high premiums for the target companies. Clearly, the shareholders normally benefit from mergers. This thesis identifies the difference between financial institutional bidders and other industry buyers.

The existing literature contains observable disagreements on whether M&As activity creates value for shareholders of acquirer companies in financial industry. Overall, initial motivations of M&As activity were to increase the profitability of the bidder firms to create more value for their shareholders. The bidder firms adopted different methods to obtain as much interest as possible from the target firms. Thus, theoretically, M&As activities must generate more interest for the shareholders of bidder firms; that is the most important benefit. Nevertheless, the empirical evidence indicated some different findings. Negative returns were identified, particularly in pre-merger returns. In addition, during the period of financial crisis in 2008, there were large amounts of value destruction connecting the M&As in the financial industry. Consequently, some studies stated that M&As activities were more beneficial to the interests of senior managers than shareholders. For example, Gorton and Rosen (1995) reported that in M&As transactions in financial industry, the interests of managers became the primary motive, ignoring the interests of shareholders.

The empirical evidence of long-run abnormal return for shareholders in financial industry bidder firms remains inconsistent. Consequently, post-M&As transaction, 3 to 5 years or even longer, value creation would normally exist. Because of the empirical evidence in the existing literature, the outcomes may be separated into 2

situations, the positive and negative long-term abnormal returns. There was a positive abnormal return in the majority of cases; nevertheless, numerous studies indicated that the negative abnormal return is more typical in financial industry bidder firms (DeLong, 2003).

Motivated by the above-mentioned facts and issues, this chapter examines short-term performance analysis. The dependent variables were CAR [-2, 2] and CAR [-5, 5] of Chinese public target firms. The key explanatory variable was whether the overseas acquirer was a financial company. Of 413 transactions, 62% of acquirers were from the financial industry. This study compared the findings with the existing literature to assess whether M&As transactions generated benefits for the shareholders of financial industry bidder firms. The research also examined whether the results applied to China's market, particularly when the target was a listed Chinese financial company. The research adopted the event study method and empirical analysis to determine whether empirical evidence supports previous studies. The findings will hopefully create a reasonable contribution to decrease the variations among empirical and theoretical theories. The findings may also make more efficient contributions to research on the financial industry.

This research supports to M&As literatures in following respects. First, the literature on financial institutional investors is quite limited. In this chapter, the author realized that over 60% of transactions were made by overseas financial investors. Because of

the ownership structures of these bidders, only limited information is obtainable from bidder prospects. The author chose to begin from their Chinese public targets. This is a unique angle for cross-border M&As research.

Second, because there are regional and industrial studies in this thesis, it may also provide advice to overseas investors when they consider acquiring a Chinese target. The thesis introduces China's M&As market environment, regulations and statistical data of historical transactions. China's opening-up policies sought to attract offshore corporations to invest in China; however, investigation remains difficult. A better understanding of China's market and policies helps to complete transactions.

Third, this paper supports the shareholders of Chinese companies in identifying overseas buyers and financial investors. To become an overseas buyer's target is a sort of reward for a firm's business and operations. Of course, a hostile takeover is not welcome; however, financial or strategic investors should be encouraged by Chinese companies. Optimizing the ownership structure and improving management or financial support are all shareholder benefits. This thesis attempts to provide academic support in this field.

#### **4.1.1 Market Background**

In the rapidly growing global economy in recent decades, there were inside and



outside approaches to achieving company development (Langford and Male, 2001). The inside approach was to invest in capital to establish a fresh firm whereas the outside approach was to create a blend by contractual covenants. One of the core outside approaches to reorganizing a company is M&As. Moreover, M&As were recognized as a common approach to obtain target firms (Choi and Russel 2004). Theoretically, M&As are the most effective approach. They help firms obtain more resources, increase revenues and cut costs. M&As are the combining of 2 or more separate firms that may belong to the same or different industries. The relation between these 2 or more firms is that a company may be completely taken over by another different firm or a similar firm. The ultimate purposes of M&As are normally defined as strategic decisions or for purely financial investment. The target of transactions with various issues is to achieve diversification of business or investment (Müller-Stewens et al., 2010).

To achieve a greater market share and more competitive opportunities, all firms chase the maximization of profits by diverse strategies. In capital markets, M&As have become the key long-term strategy. Beginning in the 20th century, M&As occurred in different sectors worldwide and involved numerous academics and policy-makers (Bertrand and Betschinger, 2011). In particular, in recent decades, increasingly more M&As transactions occurred in multiple emerging market such as China and India. In 2010, a total of 3 trillion U.S. dollars were connected with 40,983 transactions; 923.5 billion and 14,700 transactions were associated with emerging markets (Bertrand and

Betschinger, 2011).

In China since 2004, M&As activities increased quickly and ranked 4th worldwide. In 2010, 622 M&As transactions occurred, an increase of 111.6% over 2009. Disclosed merger funds were valued at more than 34.8 billion dollars. According to this report, Chinese transactions accounted for 10% of worldwide transactions, ranking just below the U.S. (Report on Foreign Investment in China, 2013). In local and cross-border M&As in Chinese market, it is unclear whether these transactions hold enhanced company performance. Cross-border M&As may have had more effects because firms that go abroad have access to more resources and techniques than in domestic markets and there is an increased probability of discovering more potential to enhance performance by casting off domestic market restrictions (Luo and Tun 2007). Because of the difficult business environment in China, it is necessary to achieve outcomes in this field whether a company's performance improved through a M&A or did not. Nevertheless, the history and volume of M&As in China remain insufficient. It is also remarkable that markets worry about the potential risks and problems and whether transactions generate value for the economy post-merger (Healy, Palepu and Ruback 1990). This study endeavours to investigate whether M&As are able improve company performance in China. In addition, this study examines whether M&As assist both bidder companies and target companies. A purpose of this research is to identify whether the performance of Chinese listed companies is significantly affected by M&As. Hence, it is necessary to make the

above assumptions. The research examines both pre-merger and post-merger stock price data to directly evaluate the abnormal returns performance resulting from transactions. All of the investigations selected historical stock price data collected from the Thomson One and CSRC (China Securities Regulatory Commission) database. For research design, the experience of the developed markets helped to explain China's situation, and China's government and companies identified potential risks and problems in numerous M&As transactions. Bidders and investors learned and grew from these transactions in legal, tax, and business areas.

This research sought to analyse M&As using both theoretical and empirical data and literature to identify the features that influence company performance. The solutions may help bidders and targets make correct decisions and create value. Therefore, the literature review encompasses all factors that may involve explaining the purposes stated above.

## **4.2 Literature Review and Hypothesis Development**

### **4.2.1 Hypothesis**

Theoretically, M&As activities should generate absolute return for acquirer companies in the financial industry if the transactions are executed for financial investment rather than a management takeover. Furthermore, neoclassical profit theory suggests that primary motivation of M&As activities are to create value for

investors; in fact, this theory works better for financial institutional investors in the financial industry. After the financial crisis in 2007, M&As activities became more active because of the asset value depreciations in the market. Currently, the economic recovery has demonstrated its influences when measuring long-term abnormal returns. For example, 3 to 5 years after the announcements date of a M&A are also time period that the long-term financial investor seeks.

In the environment of an efficient market as hypothesis, M&As activities should completely reflect investor expectations on both acquirer and target companies' stock prices if they are public companies. According to Fama (1970), the efficient market hypothesis is that stock price not only fully represents all information in the market but also delivers accurate information regarding the capital allocation to investors. Efficiency means that the abnormal returns should be effectively realized shortly after the M&As announcement date. Therefore, if M&As activities create value for acquirer companies' shareholders in the financial industry, the positive abnormal returns on stock prices should be a clear conclusion. Nevertheless, as stated above, this study focuses on abnormal returns for target companies and whether acquirer companies are in the financial industry. This is a blank area in which no research has previously been conducted. It is clear that target companies do gain positive abnormal return in M&A transactions, but what are the differences among acquirers in different industries?

Therefore, this chapter focuses on the acquirer industry effects on M&A returns for target firms. Three hypotheses follow:

H1: Listed Chinese companies receive positive abnormal returns in the short term when they are acquired by overseas firms.

H2: Listed Chinese companies receive positive abnormal returns in the short term when they are acquired by overseas financial companies.

H3: Companies acquired by financial firms outperform companies acquired by other industries.

The financial bidder companies in cross-border M&As transactions account for over 60% of transactions. These hypotheses are consistent with the findings of Bajo et al. (2013) and Silveri (2009). The reason may be that these financial investors are basically unlisted first; they are not large banks, more likely private investment fund companies. These investors are more professional and will improve the business of target firms.

There are a couple of reasons that Chinese target firm would receive a positive return upon acquisition by foreign firms. First, when a firm become an acquisition target, it would receive positive stock price premium from the market. Second, the target firm usually own good quality of asset, or good business, or considerable market share and client. This is sort of reward that overseas investors are able to pay attention on its business. Third, the target firm is not only gain capital, it also possibly receive better

management, financial, operational, technical support etc. The structure of shareholders became more diversify at the same time. Therefore, investors in the market would have a positive expectation in the short-time period when the transaction is announced. For political prospects, local government encourages overseas investment.

#### **4.2.2 Motivation of M&As**

There are numerous motives for M&As activities, and these motives may be changing. To explore the relevant theories would be valuable to deepen understanding of the value creations of M&As transactions and the motives behind them. Therefore, the literature review also involves existing theories that were extensively used to investigate and analyse M&As activities.

In the fully competitive market environment, the neoclassical profit maximization theories decree that the motives of M&As must maximize the interests of shareholders (Anderson, 1982). In particular, theory demands that if the M&As transaction is based on the shareholders' profits of bidder firms, these firms agree to the M&A (Firth, 1980). These M&As must create value for shareholders. To achieve this target, companies use diversified methods to develop their profitability, such as synergy or directly involving the management in target firm. Synergy is about economies of scales and scopes. The economy of scale is related to M&As activities that assist

bidder firms to enhance their productivity, thereby improving profitability. The economy of scope is when a company acquiring a target firm is able to increase the volume of products and services so that total costs decline. The empirical evidence of Delong (2003) highlighted that synergy is the significant aspect that creates value for the shareholders of bidder firms.

In theory, creating value for shareholder of acquirer companies is recognized as primary motivator. Asquith et al. (1983) and Schipper and Thompson (1983) agreed that if companies announced their future strategy regarding long-term growth and purposes, such as M&As activity, their stock prices would quickly increase. Gregory (1997) believed that the reactions of stock prices reflect that the information is an effective indicator of value creation, which is a manner of saying that M&As activities create value. Nevertheless, restrictions influence these motivations involving M&As activities. Precisely, considering the perfectly competitive market environment, if these large firms are so desirous of acquiring target firms that they will bid against competitors, the potential benefits may vanish (Mandelker, 1974).

In addition, neoclassical profits maximization theory may also clarify why M&As activities occur and where the profits come from. In Harford (2005), the neoclassical profits maximization theory precisely clarified the origins of merger waves and accrued more support and recognition. The theory also indicates that, theoretically, M&As activities can create value for shareholders of acquirer firms.

In fact, M&As transactions in financial industry is not able to create value for bidder firms and may even create value destruction. With regard to the existing empirical evidence of synergies and economy of scope, perhaps there is no apparent effect on the financial industry's M&As transactions. According to Rhoades (1993), analysing the cost savings from M&As transactions in the financial industry from 1981 to 1986 indicated that the cost decreases generated by M&As in the financial industry did not appear. Moreover, M&As transactions in the financial industry occurred during a financial crisis, which is also a perceptible deviation.

HSBC signed an agreement in 2003 to take over Household International, which was one of the largest financial service companies in the U.S. (Norris, 2009). HSBC thought that lending to subprime mortgage clients was a reasonable business practice. The primary motives of the transaction were that HSBC supposed it would borrow money at a much lower level or interest rate to offer Household International much higher profit margins (Lambkin and Muzellec, 2008). Nevertheless, the transaction was hurt by the financial crisis. During the crisis, Household International's borrowing costs grew, and its stock price fell to a seven-year low, which caused HSBS to suffer extreme value destruction. In 2009, HSBC had to accept defeat, and the majority of HSBC damage was caused by Household International. Finally, HSBC had to raise \$18 billion capital by selling stock (Norris, 2009).



A comparable situation occurred with J.P. Morgan during the financial crisis. That company was penalized \$13 billion, and 80% of the penalty was caused by the 2008 transactions to acquire Bear Stearns and Washington Mutual (Brunnermeier, 2008). This case also indicated that the financial crisis revealed the risk in the financial industry and emphasized that the M&As transaction may have caused the value destruction although the primary motivation was to obtain benefits.

The competition theory indicates that M&As transactions may not generate value growth for the shareholder of acquirer companies. The theory of maximization of management utility is a component of competition theory. This theory concentrates on growing the earnings of managers and executives instead of shareholders. Grossman and Hart (1980) declared that management is certainly an important influence in M&As transactions and that the beneficiaries of M&As transactions may not be the shareholders of the bidder company. The reason is that specifically in the financial industry, the most significant motivation of M&As decisions is not the interests of its shareholders; M&As transactions may not generate value for the shareholder of bidder companies.

These problems were related to the neoclassical profit maximization theory. The primary view of the theory is that it may be used to analyse the motives of M&As activities, creating value for shareholders. Stock price movements in pre-merger and post-merger periods were also related to core research question of this study.

## **4.3 Data and Methodology**

### **4.3.1 Sample Selection and Data Description**

These selected samples all contain M&A transactions (complete or incomplete) involving Chinese public companies as targets from 1994 to 2016. The primary data were collected from the Thomason One Banker transactions (SDC) and GTA (CSMAR) database. Similar to Fuller et al. (2002), the selected samples fit the following criteria:

1. The target must be Chinese firm which is listed in the Shanghai or Shenzhen Stock Exchanges.
2. To test the hypotheses requires all announced transactions that include all Chinese listed firms' cross-border transactions.
3. The acquirer firm may be public, private or other and must be a non-Chinese firm.
4. The target firm must have been publicly listed for at least 1 year before and after the acquisition announcement.

The sample began in 1994, when Chinese public companies became M&As target of foreign companies, until the end of 2016. There were 413 acquisition announcements involving Chinese listed companies as the M&As targets.

### 4.3.2 Methodologies

For all transactions, the targets were classified into two groups and the performance of the targets was divided into financial and non-financial bidders acquired; these groups were tested separately. The target short-term performance was observed for several days, beginning approximately 2-5 days before acquisition announcements and ending approximately 2-5 days after the announcement.

When all data samples were collected, testing followed Brown and Warner (1985). The modified markets model was applied to appraise daily abnormal return (ARs), which are the bidder's daily return minus the value-weighted stock return of Shanghai and Shenzhen Stock Exchanges:

$$AR_{i,t} = R_{i,t} - (\bar{\alpha}_t + \bar{\beta}_1 R_{M,t})$$

Compute cumulative value of average abnormal returns of entire sample throughout events periods.

$$CAR_T = \sum_{i=0}^N AAR_T$$

This equation indicates general average effects of firm's transactions of sample events for whole equity return.

~~Abnormal returns were summarized for the periods 5 and 11 days before and after each acquisition announcement (-2, +2) and (-5, +5) as~~

$$CAR_{i,t} = \sum_{t=-2,5}^{t+2,5} (R_{i,t} - R_{M,t})$$

where  $R_{i,t}$  is the returns (i) of an individual firm at day t and  $R_{M,t}$  is Shanghai and Shenzhen value-weighted stock return at day t.

The specific steps of calculations are same as the 2.3.2.<sup>8</sup>

### 4.3.3 Empirical Analysis

In general, M&As activities are defined as the reorganization of 2 or more firms into 1 firm, which may be the primary firm or a fresh firm (Weinberg and Blank, 1979). Some academics described M&As as a method that combines 2 firms; one survives and assumes all of the asset and liability of the target firm (Gaughan, 2002).

There were several explanations why firms pursue M&As as a development strategy in corporate decisions. The four purposes of M&As are personal, market, economic and strategic motivations (Oduro and Agyei, 2013). Personal motivations are the agency problems and management over-confidence. Market motivations are a quick approach for the company to access a new market in diverse fields or regions by M&As transactions. Economic motivations are the creation of economic scales.

<sup>8</sup> The result is robust by using different model, for example, Fama–French three-factor model and Fama–French five-factor model

Strategic motivations are the strength of company strategies such as synergy effects, the competitive strength of a company, market dominant enhancement, and more resources, products and strength (Oduro and Agyei 2013).

As stated above, 2 theories support the imposition of M&As, the redistribution theory and the value creation theory (Berkovith and Narayanan, 1993 and Vijgen, 2007). The agency problem and hubris theories together form the redistribution theory of M&As. The agency problems assume that manager and shareholder have dissimilar interest. Managers chase their self-interest instead of the interests of shareholders. Additionally, the free cash flow may be another effect on M&As activities because the cash may be financed as dividends to shareholders. The hubris theory states that managers and shareholders may have similar interests and synergies value may not be as much as these scholars assumed. The value was lower than incoming premiums (Roll, 1986). The value creation theories suggested that manager think through the interests of their shareholder when they plan to obtain premium value. As for economic perspective, there are more value in merged entity than in total of bidder and target separately (Vijgen, 2007). Numerous studies have indicated that the effect of M&As on corporate financial performance may be positive or negative. Correspondingly, accounting data are continuously applied to clarify the influence of M&As on changes in profitability of target company (Oduro and Agyei, 2013). M&As are the management of corporate finance. Previous studies identified several problems in buying or selling firms or combining or dividing firms. Firms that have experienced

M&As regularly anticipate rapid development in their industry regardless of the market. In the worldwide markets, target firms regularly expose the development of their asset productivity (Andrade, Mitchell and Stafford 2001). Groff et al. (2007) adopted the data envelopment research approach to observe whether the performance of hospitals improved after M&As transactions. The results indicated dramatic improvements from the second year after the transactions. Nevertheless, Glodberg (1983) investigated 20 studies for 40 years. He studied post-M&As transactions and concluded that a number of firms expanded their business scale although their performance did not improve. A number of firms even indicated that profits had dramatically decreased after the M&As transactions. He also observed that only the firm's shareholders were able to make a profit.

As stated above, M&As may be defined as domestic M&As and cross-border M&As. In recent years, volume of cross-border M&As transactions has grown. This is a sign that the M&As activities are becoming more globalized (Dension et al., 2011). The integration of the two U.S. firms HP (Hewlett-Packard Company) and EDS Alumni (Electronic Data Systems Corporation) affected many operations that needed to compete worldwide and not only in the U.S. The cross-border M&As were significant foreign direct Investments (FDI) activities (United Nations Conference, 2006). Hence, the cross-border M&As always include exposure and access for companies to enter an overseas market or industry; this is also an approach of value creation strategy (Shimizu, 2004). In general, the empirical evidence demonstrates the performance of

diverse domestic and cross-border M&As. Mostly, the findings indicate that M&As activities raise the value of target firms and decline the value of bidder firms. The transaction may bring higher value for bidders. Nevertheless, a number of the studies discovered that company value decreased or was unaffected after the M&As transactions, which is defined as underperformance (Agrawal and Jaffe, 2000). In theory, The M&As may include synergies, economy of scales, improvement of operations and cost reductions. The transactions may lower costs or increase revenues; however, in practice, the empirical evidence demonstrates that a number of bidders unable to reach the goals (Ismail, Abdou and Annis 2011). There were two major forms of previous researches, markets measured-based research and accounting measured-based research.

#### **4.3.3.1 Financial Leverage**

Financial leverage is an important method of M&As. Leveraged buyouts are a type of transaction in which smaller companies acquire larger companies with large debt; the main channel of high debts is commercial bank loans and issuing bonds to raise sufficient funds. The process includes controlling the lack of optimism and then completing the split; when financial statements become better, one sells the stock to make profits. The bidder, the target, and the government are the participants. They each have their own different positions, using financial innovation to make diversified transactions and develop depth. Whether operating performance in fact improves after

the transaction remains a factor that requires study.

Financial leverage may be why cash acquisitions outperform stock acquisitions and may be related to monitoring the debt. Ghosh and Jain (2000) showed that financial leverage affects the operating performance of M&As. Financial leverage may increase following transactions because cash transactions are more likely to increase debt than are stock transactions. This may explain why more debt leads to better investment decisions. To assess the different effects of payment on change in post-acquisition cash flow, those authors used the change in regression in relative performance testing. Methods of payment from 1981 to 1995 have been analysed regarding the performance of cash, stock, and a mixture of both. M&As are classified by whether bidders are related or unrelated industries to the target firms.

Capital structure theory and empirical research methods generally focus on two aspects. First, academic researchers are more focused on the relation between capital structure and enterprise value. Second, academic researchers identify important elements of capital structure. There are two primary methods of capital structure and enterprise value. The first method is event study (Masulis, 1980). This method emphasizes the disclosure of changing information regarding financial leverage. The second method regards cross-sectional regression analysis (Weston, 1953). Enterprise value and the cost of capital are the dependent variables, and financial leverage is the explanatory variable. Using these variables, one constructs regression equations. The



studies regarding the factors of capital structure also concentrate on two aspects. One is to test the company issuing debt or equities by the Probit Model or the Logit Model (Marsh, 1982; Mackie-Mason, 1990; Hovakimian et al., 2001). Another aspect is the debt ratio of capital structure factors regression analysis (Titman and Roberto, 1988). These studies have contributed numerous findings in this field.

#### **4.3.3.2 Method of Payment**

A number of market measured-based studies demonstrated diverse findings regarding company performances by M&As transactions. Choi and Russell (2004) investigated CARs (cumulative abnormal return) of 171 deals to demonstrate improvements in corporate performance. They discovered that firms do not experience considerable growth in corporate performance following M&As transactions. The authors also observed that transaction time, methods of payments and target public status do not influence company performances. Furthermore, Andre et al. (2004) investigated 267 M&As transactions between 1980 and 2000. For the researches, they tested 3 factors that may influence M&As performance: methods of payments, value of bidders, and cross-border and domestic transactions relating to company performances. The findings revealed bidders' significant under-performance in post-merger period. Nevertheless, in the researches, there are no comparisons with control groups of similar companies to test influences. Yook (2003) tested company performances in the post-merger period by EVA (Economic Value Added). Yook's research also observed

that the bidder companies experienced significant under-performance in the post-merger period. The findings identified 3 factors that affect M&As performance: methods of payment, types of acquisitions and business similarity. However, the research failed to identify the relation between corporate EVA and the 3 factors above. In response to the diverse findings of the three previous studies, Megginson et al. (2004) effectively identified relation between post-merger performance and effect factors: methods of payment, time effect, the level to which firms participated, the effect of bidders and the effect of merger attitudes. That study investigated samples of 204 M&As deals from 1977 to 1996. The findings pointed out that attitudes of corporation affected the post-merger performance and that cash-financed transactions had better outcomes than stock-financed transactions. To investigate whether successful M&As improved corporate performance, Kling (2006) conducted a study in Germany and investigated the effect variables that affect M&As. This study observed 35 German firms and concluded that M&As positively influenced corporate performance. The outcomes of this study were significant because the time period observed was sufficiently long for long-term research.

#### **4.3.3.3 Size**

Accounting measures-based analysis may reveal more specific outcomes. Heron and Lie (2002) investigated 959 M&As to identify correlation between methods of payments, management earning and company performances. In their researches, they

primarily compared pre-merged firms with same-industry firms, and the study also compared post-merged firms. By investigating operating incomes over sales, the authors concluded that bidder companies outperformed controlled groups. To investigate influence of M&As on company performances, Yeh and Hoshino (2002) investigated 86 Japanese M&As transactions. The investigation focused on M&As' profitability, efficiency, and growth by observing total productivity, ROE (return on equity) and ROA (return on assets) to measure corporate performances. The outcomes indicated that M&As transactions had negative influence on corporate performances in Japanese markets. However, this research focused only on domestic M&As activities. Gugler et al. (2003) observed samples of 45,000 M&As worldwide. Their goal was to identify effects on corporate performance across different markets, regions and sectors. The outcomes were investigated by measuring sales and profitability. The results demonstrated that cross-border M&As and domestic M&As were not significantly different. The diversifications of sales and profits were tested. Efficiency power, which increases both sales and profits, is more successful than market power, which increases profits but allows sales to decline. The research has some disadvantages as well. The study ignores the effects of industrial changes before M&As transactions and focuses only on post-merger sales growth and profitability, not pre-merger profitability. Ramaswamy and Waagelein (2003) observed post-merger financial performances in H.K. The study investigated the relation between company performances and firm size, methods of payment, compensation policy and the industry. The sample was 162 M&As transactions over a period of 5 years, and the

study adopted operating cash flow return to measure performance. The results indicated that M&As activities may cause significant improvements in corporate performance for the entire sample. In addition, firm size was correlated with negative effects on company performances. Shimizu et al. (2004) observed that M&As may not improve corporate financial performance. Their researches adopted the meta-analysis techniques to test company performances. They observed that firm size does not affect financial performance. Feroz et al. (2005) selected sample of 45 M&As in the U.S.; their outcomes demonstrated that 82% of sample firms showed significant performance growth after the M&As transactions. This research adopted DEA (Data Envelopment Analysis) to investigate managerial efficiency effects and investigated combined efficiency during the post-merger period. To determine whether different time periods affected operating performance, Cabanda and Pajara-Pascual (2007) investigated Philippine firms 3 years before the M&As transaction, 3 years after the M&As transaction and 7 years after the M&As transaction. The study selected conventional accounting and financial approaches to evaluate corporate performance after M&As transactions. In general, the results indicated that the M&As did not develop corporate performances in either short-term or long-term in Philippine market. Another study by Mantravadi and Reddy (2008) tested the size of M&As firms. Their results indicated that size influences companies in the Indian market. That study used financial ratios to measure performance. The outcomes demonstrated positive relation between firms size and corporate financial performances. Kumar (2009) investigated 30 firms in the Indian market to identify synergy effects. That study selected

accounting data to investigate the effects on corporate performance and concluded that M&A activities do not generate improvement. Ismail et al. (2010) investigated M&As activities among Egyptian firms. They investigated the 5 measurements of profitability, liquidity efficiency, cash flow position and solvency. However, their results indicated that M&As activities caused improvements in profitability only.

#### **4.3.3.4 Regions**

The literatures observed that M&As are generally unsuccessful in reaching goals when M&As occur in emerging markets such as India, the Philippines and Egypt. Because the volume of M&As activity in China is becoming one of the largest worldwide, more studies to investigate the difficulties of M&As for Chinese firms are necessary. Chen and Young (2009) investigated 39 M&As transactions to measure stock market reactions. The results demonstrated a negative relation between government ownership and CAR (cumulative abnormal returns). Ryu and Lee (2009) observed the significance of ethnic networks that may affect company performances in M&As transactions. Gao (2003) observed that Chinese networks may be quite an important factor in Chinese markets. The ethnic networks may exchange information, matching potential buyers and sellers in financial markets. They deliver recommendations for M&As activities in China based on experience and studies of foreign markets. Even the domestic markets in China have a limited history; thus, studies remain lacking in empirical evidence. However, the past 15 years have seen

massive amounts of historical data. Thus, although the time period may not be sufficiently long, the volume of transactions may be sufficient to demonstrate an explicable outcome.

To summarize the literature, the influence of financial performance in M&As activities may be classified as 2 measurements, market measured-based research and accounting measures-based research. The influences of corporate performance on M&A activities were investigated by a number of previous studies. Jensen and Ruback (1983) observed only slight growth of abnormal returns, and a few studies observed a positive relation between M&As and abnormal returns. There were even decreases in abnormal returns after M&As in some studies, such as Kiling (2006). However, there are also some questionable outcomes from adopting accounting measures-based research. Some studies demonstrate an insignificant improvement in financial performance (Heron and Lie 2002). For these studies, there are an amount of factors that may influence corporate performance after M&A, for example methods of payment (stock and cash), domestic and cross-border M&As transactions, firm size, time periods, the ownership structure, and ethnic networks. These factors were investigated in previous studies. This paper contributes to the cross-border M&As in China, which helped global investors and Chinese managers to understand the market and to make the right decisions.

#### **4.3.3.5 Sectors**

Previous studies have made many contributions to M&As transactions. In this section, the sectors will be considered as another important factor of M&A transactions. Andrade et al. (2001) identified evidence of industry shock, which may help to explain a large volume of merger and acquisition transactions in the 1990s as well as in recent decades. Andrade et.al (2001) divided their study into several sections and noted the two most related empirical features, that mergers arise in waves and that mergers cluster by industries. Andrade et al. (2001) obtained data from the CRSP (Centre for Research in Security Prices), the NYSE (the New York stock exchange) and the AMEX (American Stock Exchange) during 1960s, 1980s and 1990s on both targets and acquirers in U.S.-based publicly traded companies. Their research first identified the gaps between the 1960s, 1980s and 1990s; they discovered that the 1980s were the time of reallocations of massive assets through M&As. Those authors cited evidence that M&As in the 1990s most often used stock as the payment method and indicated that merging counterparts were normally closely related industries.

However, when mergers come in waves, the industrial level is shocked, as with technological innovations, supply chain changes, and deregulation, which may lead to company restructuring. Andrade et al. (2001) assumed deregulation as a transaction factor to analyse because “deregulation precipitated widespread consolidation and restructuring of a few industries in the 1990s, frequently accomplished through

merger”.

According to Andrade et al. (2001), value of mergers and acquisitions equalled 48% of non-residential gross investment, which suggests the importance of measuring value in both increments and destruction, which are the results of merger activities, and how the incremental value is allocated. The second portion of their study discussed the reaction of stock markets to merger announcements and long-term abnormal returns. First, short-window event research analysed whether merger activities create profitability for shareholders in either bidder or target firms. To explore markets responses to the M&As announcement, the three-day event window was considered, which is from the day prior to the mergers announcements to the day after. The longer events window is from several days before announcement to the end of the merger transaction. The results regarding merger transactions of both bidder and target companies on behalf of the stock market reactions exposed two types of estimations to measure the average returns per year. Target companies had three-day abnormal returns of 16%, which can increase to 24% as long as time period continues. Moreover, shareholders of target firms consider 16-month period to be a normal expected time over the 3-day event window.

Those estimates for target companies indicated stable situations for decades, and every decade was connected to merger activities in different industries; however, they all had consistent abnormal returns at 16%. Andrade et al. (2001) concluded by



observation that merger abnormal returns were normally close to one another across different transactions and that target firms' shareholders were definitively profit gainers. As for bidder firms, the abnormal returns of an average of 3-day and longer event windows were negative, ranging from -0.7 to -3.8%. This result suggests that bidder firms' shareholders are not the receivers of benefits.

Harris and Ravenscraft (1995) observed that in research-intensive industries, the frequency of cross-border M&As appears to be relatively higher, and both companies may receive benefits. Caves (1989) observed that monopolies within the industry may receive more benefits from international diversification. Because of different factors in industries such as the level of development and the business cycle, the probability of success of cross-border M&As in different sectors may also differ.

#### **4.3.4 Event Study**

An event study investigates the effect on a listed company's stock price after an acquisition and also measures the enterprise value change. Therefore it is necessary to measure the effect of the company on the event by some method. Generally, event studies adopt Cumulative Average Event study as a measurement; this method compares the company's actual income ( $R$ ) when the acquisition is announced with normal earnings  $E(R)$ , assuming no event influences the market. Then the method suggests abnormal returns  $AR$ , as  $AR = R - E(R)$  (Aharon et al., 2010).

Events study uses financial markets data to assess effect on company by specific economic events (Eastman et al., 2010). This method assumes that the market is reflecting effectively, and the event effect immediately reflects the price of the security. By observing relatively short-term prices of securities, the method is able to define the probability of the effect of a market event. However, event study has limitations. In a market that is at half strength, this method primarily exposes fully announced information and cannot constitute sufficient conditions but only a necessary condition in a market whose effectiveness is at half strength. Excepting information omissions, the event study method has some other limitations. This method primarily indicates results that rely on the calculation method and data selection of events, companies and calculations on abnormal returns (Campbell et al., 2010). The market response is massively diverse for different events, and sometimes the event has no significant effect on profitability and does not represent any other events with identical effects (Da Graca, 2010). Therefore, in the financial market in an identical period, this method results in different conclusions when analysing different events. This is also true when calculating abnormal returns. Therefore, it is important to use rational models to measure the effects of acquisition events when analysing massive market data.

## **4.4 Results**

### **4.4.1 Summary Statistics**

#### **4.4.1.1 Entire Sample**

Table 4.1 indicates summary statistics for the entire sample of Chinese targets that were acquired by foreign buyers. The table indicates the yearly transaction volume and value of transactions. The third column compares the number of transactions financed with cash and non-cash payments. In the sample, only 19% of transactions were financed with cash; 81% of the transactions were financed with no cash. The fourth column indicates the number of transactions in which the acquirer was a public company. The results indicated that only 33% of acquirers were publicly listed. The fifth column presents the number of transactions in which the acquirer was a financial company. The results indicated that 62% of acquirers were from a single industry. The last column presents the breakdown of cumulative abnormal returns by year.

[Insert Table 4.1 here]

A distinctive portion of this table indicates that there was a significant growth in value of transactions and number of transactions since 2002. A quite active period occurred from 2002 to 2009. This time period may explain the timing of China's joining the WTO in 2001 during the financial crisis. This is echoed by the Chinese opening-up

policy and other supportive policies. For example, the Ministry of Commerce issued a policy<sup>9</sup> in 2001 (Chong, 2007; Chen and Young, 2009; Dong and Guo, 2013; Gao, 2003) These regulations allowed the foreign investor to enter the Chinese market in a more regulated manner. The overall percentage of transactions indicated that private financial companies preferred to buy Chinese targets, which explains why more private funds were involved in the Chinese M&As market. The cumulative abnormal returns performed better after 2002, which also explains the benefit of joining the WTO. However, this trend ended with the financial crisis, and the situation turnover from this point can be found in Chapter 2.

#### **4.4.1.2 Transaction Distribution**

Panel A of Table 4.2 reports numbers and proportions of transactions that foreign (excluding China) acquirers conducted in the thirteen major industries. The results indicated that bidding companies were extremely focused on financials. Panel B of Table 4.2 reports numbers and proportions of transactions for Chinese targets in twelve major industries. The results indicated that Chinese targets were primarily in financials, industrials, materials and consumer staples. Panel C of Table 4.2 reports numbers and proportions of transactions of foreign buyers, which are divided into four geographic areas. The results indicated that the majority of buyers were from Asia-Pacific.

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<sup>9</sup> Ministry of Commerce issued “China Absorbed Foreign Investment Policy” on 15/02/2001.

[Insert Table 4.2 here]

The majority of bidder companies were financial companies; combining the results in Table 4.1 suggests that the majority of acquirers were not publicly listed. Clearly, these investors were basically private equity buyout funds, and the chosen targets were quite diversified. With the low interest rates and volatile credit access to emerging markets, foreign companies required specialized private advantages to optimize opportunities in China, and it appears that Chinese public financial companies were more attractive (Daniel, 2012). Of the Asia-Pacific acquirers, 66% (113 transactions) were from Hong Kong. Hong Kong is sixth largest stock market globally and second in Asia behind Tokyo. Hong Kong is the sixth largest financial centre for foreign exchange trading. It is always exposed to global investors, and there is no capital monitoring (Meyer, 2015; Li, 1995).

#### **4.4.1.3 Univariate Test**

Table 4.3 demonstrates summary statistics for entire sample and univariate comparison between financial and non-financial bidders. In the sample, 62% of overseas bidders were financial companies; only 38% of transactions were bid on by other industries.

[Insert Table 4.3 here]

Panel A of Table 4.3 presents both 5-day and 11-day abnormal returns for listed Chinese target companies. The mean and median CAR [-2, 2] for transactions acquired by financials was 5.18% (t=4.27) and 3.44% (t=2.16), respectively; the mean and median CAR [-2, 2] for transactions acquired by non-financials was 5.10% (t=2.05) and 2.86% (t=1.99), respectively. Transactions acquired by financials outperformed transactions acquired by non-financials by 0.08% (t=3.17) on average. The mean and median CAR [-5, 5] for transactions acquired by financials was 6.51% (t=4.45) and 3.68% (t=2.24), respectively; the mean and median CAR [-5, 5] for transactions acquired by non-financials was 6.44% (t=3.00) and 3.43% (t=2.14), respectively. Transactions acquired by financials outperformed transactions acquired by non-financials by 0.06% (t=2.51) on average.

Panel B of Table 4.3 compares acquirer characteristics for transactions acquired by financials and non-financials. The panel clearly demonstrates the difference between those two types of target companies in financial performance. First, the stock prices were quite close. Second, non-financial acquirers tended to acquire higher ROE and ROA targets. Third, the EPS and BVPS were both quite low in both groups, which is why they became targets. Fourth, the financial companies acquired higher EBITDA targets, which suggests the target had better financial and operational performance. Finally, the companies acquired by financials had much greater total assets and slightly higher sales, which suggests that financial acquirers tended to choose larger

but weaker business growth companies. Overall, the differences in price per share, ROE, ROA, EBITDA and sales were significant.

Panel C of Table 4.3 presents characteristics for transactions for companies acquired by financial and non-financial entities. The mean of market value for target companies acquired by financials was much higher than the target companies acquired by non-financials. The value of transactions acquired by financial entities was also significantly higher than the value of transactions acquired by non-financial entities. The mean and median of relative size for transactions acquired by financial and non-financial entities were 2.18 (1.22) and 1.45 (1.14), respectively. The relative size of transactions acquired by financials was significantly larger than the relative size of transactions acquired by non-financials. According to the comparisons of market value and transaction value, therefore, it may be concluded that financial companies tended to acquire larger Chinese targets, and non-financial companies tended to acquire smaller Chinese targets.

To summarize, Table 4.3 displays Chinese public companies acquired by foreign financial bidders. These companies may see higher short-term return. This result is consistent with the hypothesis of Chapter 3. In fact, these targets obtained significant positive abnormal returns by any sector's acquirer in cross-border M&As transactions; moreover, acquirers from the financial sector contributed the most transactions. The reason may be that financial institution investors have much greater capability to raise

capital, which is also consistent with the result that larger targets and larger transactions are made by financial acquirers. These results are consistent with previous literature Bajo et al. (2013), Silveri (2009) and Yeh (2012) noted that in takeover bids by private equity funds raised by large investment companies such as Morgan Stanley<sup>10</sup>, KKR<sup>11</sup>, Warbury Pincus<sup>12</sup>, and Newbridge,<sup>13</sup> the announcements of buyouts caused a significantly positive stock market reaction. The target experienced significant average improvement in operating performance, and the improvement was consistent with size of positive market response to the buyout announcement. The buyout action may cause value increases, which are attributed to the more efficient use of assets and a reduction in operating costs. Financial institutions are better able to identify institutional investors to raise capital in a short period of time to guarantee cash flexibility on investment. In this chapter, the author investigates Chinese public target performance, however overseas financial institutional investors such as private firms rather than public companies. This focus is consistent with the findings in Chapter 3: private targets bring better performance to their bidder companies.

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<sup>10</sup> Morgan Stanley announced investing in Wuliangye Yibin Co. Ltd. (the largest Chinese wine company) on 28/06/2006. The transaction was not completed but caused significant CAR in the short term.

<sup>11</sup> KKR announced the acquisition of Fujian Sunner Dvlp. Co. Ltd. (owned and operated chicken farms) in 26/08/2014 for over 18% of shares.

<sup>12</sup> Warbury Pincus announced investment in Beijing Wangfujing Dept. Store (owned and operated department stores) on 29/09/2006. The transaction was not completed but caused significant CAR in the short term.

<sup>13</sup> Newbridge announced acquiring Shenzhen Dvlp. Bank Co. Ltd. (owned and operated chicken farms) in 29/05/2004 for over 17% of shares.



## 4.4.2 Regional Univariate Test

### 4.4.2.1 North America

Table 4.4 presents summary statistics for entire sample and univariate comparison between financial and non-financial bidders from North America. In the sample, 49% of overseas bidders were financial companies; 51% of transactions were bid on by other industries.

[Insert Table 4.4 here]

Panel A of Table 4.4 presents both 5-day and 11-day abnormal returns for listed Chinese target companies. The mean and median CAR [-2, 2] for transactions acquired by financials was 2.29% (t=2.32) and 1.96% (t=2.23), respectively; the mean and median CAR [-2, 2] for transactions acquired by non-financials was 1.76% (t=1.75) and 1.57% (t=1.83), respectively. Transactions acquired by financials outperformed transactions acquired by non-financials by 0.53% (t=1.79) on average. Moreover, the mean and median CAR [-5, 5] for transactions acquired by financials was 2.88% (t=2.61) and 2.25% (t=2.35), respectively; the mean and median CAR [-5, 5] for transactions acquired by non-financials was 2.29% (t=1.95) and 1.73% (t=1.85), respectively. Transactions acquired by financials outperformed transactions acquired

by non-financials by 0.59% ( $t=1.99$ ) on average.

Panel B of Table 4.4 compares acquirer characteristics for transactions acquired by financial and non-financial entities. The panel clearly demonstrates the differences between those two types of target companies in financial performance. First, the stock prices of companies acquired by financials were slightly higher. Second, non-financial acquirers tended to acquire higher ROE and ROA targets. Third, the EPS and BVPS were quite low in both groups, which is why they became targets. Fourth, the financial companies acquired lower EBITDA targets, which suggest the target had poorer financial and operational performance. Finally, the companies acquired by financials had much higher total assets and sales, which suggests that financial acquirers tended to select larger companies. Overall, the differences in price per share, ROE, ROA, EBITDA and sales were significant.

Panel C of Table 4.4 presents characteristics for transactions acquired by financial and non-financial bidders from North America. The mean of market value for target companies acquired by financials was much higher than for the target companies acquired by non-financials. The value of transactions acquired by financials was also significantly larger than the value of transactions acquired by non-financials. The mean and median of relative size for transactions acquired by financials and non-financials were 2.78 (1.52) and 2.97 (1.24), respectively. The relative size of transactions acquired by financials was significantly lower than the relative size of transactions

acquired by non-financials although the level was high for both groups. According to comparisons of market value and transaction value, therefore, it may be concluded that financial and non-financial companies both tended to acquire larger Chinese targets from the North American market.

In summary, Table 4.4 indicates that Chinese public companies acquired by foreign financial bidders may enjoy higher short-term return. This result is consistent with the hypothesis of Chapter 3. In fact, these targets received significant positive abnormal returns by any sector's acquirer in cross-border M&As transactions; moreover, acquirers from the financial sector contributed the most transactions. The reason may be that financial institution investors have a much stronger capability to raise capital, which is also consistent with the result that larger targets and larger transactions are conducted by financial acquirers.

#### **4.4.2.2 Pan-Europe**

Table 4.5 demonstrates summary statistics for entire sample and univariate comparison between financial and non-financial bidders from Pan-Europe. In the sample, 40% of overseas bidders were financial companies; 60% of transactions were bid on by other industries.

[Insert Table 4.5 here]

Panel A of Table 4.5 indicates both 5-day and 11-day abnormal returns for listed Chinese target companies. The mean and median CAR [-2, 2] for transactions acquired by financials was 3.57% (t=2.44) and 3.17% (t=2.35), respectively; the mean and median CAR [-2, 2] for transactions acquired by non-financials was 5.41% (t=3.42) and 3.33% (t=2.76), respectively. Companies acquired by financials underperformed companies acquired by non-financials by -1.84% (t=2.23) on average. Moreover, the mean and median CAR [-5, 5] for companies acquired by financials was 4.99% (t=2.85) and 4.15% (t=2.78), respectively; the mean and median CAR [-5, 5] for companies acquired by non-financials was 7.08% (t=4.50) and 4.69% (t=3.15), respectively. Companies acquired by financials underperformed companies acquired by non-financials by -2.09% (t=2.29) on average. However, the return levels remained attractive.

Panel B of Table 4.5 compares acquirer characteristics for companies acquired by financial and non-financial entities. The table clearly identifies the difference between those two types of target companies in financial performance. First, the stock prices of companies acquired by financials were slightly lower. Second, non-financial acquirers tended to acquire higher ROA targets, and financial acquirers tended to acquire higher ROE targets. Third, the EPS and BVPS were quite low in two groups, which is why they became targets. Fourth, financial companies acquired higher EBITDA targets, which suggest the target exhibited better financial and operational performance.

Finally, the companies acquired by financials had much higher total assets and sales, which suggests that financial acquirers tended to select larger companies. Overall, the differences in EBITDA, total assets and sales were significant.

Panel C of Table 4.5 presents transaction characteristics for companies acquired by financial and non-financial bidders from Pan-Europe. The mean of market value for target companies acquired by financials was much larger than for the target companies acquired by non-financials. The value of companies acquired by financial entities was also significantly higher than the value of companies acquired by non-financial entities. The mean and median of relative size for companies acquired by financial and non-financial entities were 1.53 (1.15) and 1.48 (1.48), respectively. The relative size of companies acquired by financials was significantly larger than the relative size of companies acquired by non-financials. According to the comparisons of market value and transaction value, therefore, it may be concluded that financial companies tended to acquire larger Chinese targets, and non-financial companies tended to acquire smaller Chinese targets.

To summarize, Table 4.5 indicates that Chinese public companies acquired by foreign non-financial bidders may obtain higher short-term returns. This result is not consistent with the hypothesis of Chapter 3. In fact, these targets obtained significant positive abnormal returns by any sector's acquirer in a cross-border M&As transaction.

#### 4.4.2.3 Asia-Pacific

Table 4.6 presents summary statistics for entire sample and univariate comparison of financial and non-financial bidders from Asia-Pacific. In the sample, 49% of overseas bidders were financial companies; 51% of transactions were bid on by other industries. Most transactions were within the Asia-Pacific, and there were 113 transactions made by Hong Kong investors.

[Insert Table 4.6 here]

Panel A of Table 4.6 indicates both 5-day and 11-day abnormal returns for listed Chinese target companies. The mean and median CAR [-2, 2] for companies acquired by financials was 6.55% (t=3.52) and 2.60% (t=1.89), respectively; the mean and median CAR [-2, 2] for companies acquired by non-financials was 6.11% (t=2.69) and 1.81% (t=2.02), respectively. Companies acquired by financials outperformed companies acquired by non-financials by 0.45% (t=1.90) on average. Moreover, mean and median CAR [-5, 5] for companies acquired by financials was 8.81% (t=3.88) and 2.64% (t=1.95), respectively; the mean and median CAR [-5, 5] for companies acquired by non-financials was 7.57% (t=4.28) and 1.88% (t=2.04), respectively. Companies acquired by financials underperformed companies acquired by non-financials by 1.24% (t=1.91) on average. However, the results of CAR [-5, 5] were not consistent with the

entire sample; the return created in this area remains the highest.

Panel B of Table 4.6 compares acquirer characteristics for companies acquired by financial and non-financial entities. The panel clearly indicates the difference between those two types of target companies in financial performance. First, stock prices of companies acquired by financials were slightly higher. Second, non-financial acquirers tended to acquire higher ROA targets, and financial acquirers tended to acquire higher ROE targets. Third, the EPS and BVPS were quite low in both groups, which is why they became targets. Fourth, financial companies acquired higher EBITDA targets, which suggest the targets presented a better financial and operational performance. Finally, the companies acquired by financials had much higher total assets and sales, which suggests that financial acquirers tended to choose larger companies. Overall, the differences in price per share, ROE, ROA and EPS were significant.

Panel C of Table 4.6 indicates transaction characteristics for companies acquired by financial and non-financial bidders from Asia-Pacific. The mean of market value for target companies acquired by financials was much higher than for the target companies acquired by non-financials. The value of companies acquired by financial entities was also significantly higher than the value of companies acquired by non-financials. The mean and median of relative size for companies acquired by financial and non-financial entities were 1.99 (1.41) and 0.91 (0.85), respectively. The

relative size of companies acquired by financials was significantly larger than the relative size of companies acquired by non-financials. According to the comparisons of market value and transaction value, therefore, it may be concluded that financial companies tended to acquire larger Chinese targets and non-financial companies tended to acquire smaller Chinese targets.

To summarize, Table 4.6 indicates that Chinese public companies acquired by foreign financial bidders may obtain higher short-term returns. This result is consistent with the hypothesis of Chapter 3. In fact, these targets obtained significant positive abnormal returns by any sector's acquirer in cross-border M&As transactions; moreover, acquirers from the financial sector contributed the most transactions. The reason may be that financial institution investors have a much stronger capability to raise capital, which is consistent with the result that financial acquirers pursued larger targets and larger transactions.

#### **4.4.2.4 Other Countries**

Table 4.7 demonstrates summary statistics for entire sample and univariate comparison between financial and non-financial bidders from other countries. In the sample, 100% of overseas bidders were financial companies; there were no companies bid on by other industries.



[Insert Table 4.7 here]

Panel A of Table 4.6 indicates both 5-day and 11-day abnormal returns for listed Chinese target companies. The mean and median CAR [-2, 2] for companies acquired by financials was 5.28% ( $t=3.47$ ) and 2.28% ( $t=2.42$ ), respectively. Moreover, the mean and median CAR [-5, 5] for companies acquired by financials was 6.09% ( $t=3.85$ ) and 3.80% ( $t=2.80$ ), respectively.

Panel B of Table 4.7 compares acquirer characteristics for companies acquired by financial and non-financial entities. The panel clearly identifies the differences between those two types of target companies in financial performance. First, the stock prices of companies acquired by financials were not extremely high. Second, financial acquirers tended to acquire higher ROE targets. Third, the EPS and BVPS were both quite low, which is why they became targets. Fourth, financial companies acquired low EBITDA targets. Finally, companies acquired by financials had low total assets and sales, which suggest that financial acquirers tended to select small companies.

Panel C of Table 4.6 indicates characteristics for companies acquired by financial and non-financial bidders from other countries. The mean of market value for target companies acquired by financials was low. The value of companies acquired by financial entities was small as well. The mean and median of relative size for companies acquired by financial entities were 2.33 and 0.72, respectively. The relative

size of companies acquired by financials was slightly large. According to market value and transaction value, it may therefore be concluded that financial companies from other countries tended to acquire small Chinese targets.

To summarize, Table 4.7 indicates that Chinese public companies acquired by foreign financial bidders may obtain high short-term returns. This result is basically consistent with hypothesis of Chapter 3.

#### **4.4.3 Regression Analysis**

Table 4.8 illustrates the results of short-term regression analysis. The dependent variables were the CAR [-2, 2] and CAR [-5, 5] of Chinese public target firms. The key explanatory variable was whether the overseas acquirer was a financial company.

[Insert Table 4.8 here]

The CAR [-2, 2] and CAR [-5, 5] indicated that the Chinese targets were significantly positive when overseas acquirers were financials, which were approximately 0.22% and 0.27%, respectively, over the entire sample. Thus, there was a positive relation between market response before and after the acquisition announcement of a public Chinese target and overseas financial bidders. There were control variables as listed in Table 4.8, which included acquirer nations, target financial performance and different

target industries. The results also indicated when the acquirer was from a developed country and the same industry as the target. The target firms in finance, consumer staples, technology, real estate and the telecom industry experienced premium bidding. The table also indicates significantly negative results when the acquirer had a high return on equity and high market value. This result suggests that most transactions were conducted by overseas private equity buyout funds or other financial institutional investors, and these fund managers preferred defensive, good quality, high-value stock. This also echoes Hypothesis 1 of this chapter. This result is consistent with Bajo et al. (2013) and Silveri (2009). Bi and Wang (2014) observed that large institutional investors such as mutual funds have robust incentives to trade and realize profits by takeovers in the Chinese capital market. The financial institutions understand operations and financial performance better; for example, private fund managers normally worked at the senior levels of the top 500 world companies; some were retired CEOs. Institutional investors give advice or are directly involved in management to improve business. In other words, these investors know how to maximize company value.

## **4.5 Conclusion**

To summarize, this chapter reviewed existing literature and identified some empirical evidence in cross-border M&As in financial industry. Financial institutional investors may create more value for Chinese public target companies. Previous studies indicate

that M&As transactions did generate more return for target firms when the bidder belonged to the financial industry. The essential point is updating the empirical research and evidence to investigate current validity. This study is specific to the Chinese M&As market, which is the most active emerging market globally. This dissertation explored the empirical evidence to examine principles and theories. Moreover, the assumptions focused on the differences between the financial industry and other industries and whether M&As transactions can create more value for shareholders of target firm.

The result of this study demonstrated that the financial industrial bidder brought a higher premium to its Chinese target company because stock market investors strongly believed that the target company is good business. Better management and financial status are expected. The Chinese government also encouraged foreign capital and investments to support local economies. For the regional studies, only European financial institutional investors created less return than the average returns of other industries although the return was nevertheless positive and high. The transactions within Asia-Pacific contributed the highest return to the shareholders of target firms.

There is extremely little research focusing on financial institutional investors' activities because these transactions tend to be confidential. Data collection may also be quite difficult. Thus, this dissertation focused on listed target companies. In fact, financial bidder companies contributed over half of the transactions in the M&As market. This

should not be ignored even with limited access to information. This dissertation attempts to fill a gap in this area.

Nevertheless, the access of information and data collection remain difficult, limiting complete observation in this area. In the cross-border M&As market, asset management companies and private fund companies are main players. They normally do not go public, which means there is no access to public information. Their investor information is also confidential. Therefore, the only solution is to identify what they invest in, and they basically prefer to invest in private companies rather than public companies.<sup>14</sup> Therefore, only scant information is available from public target companies. Moreover, long-term validity also requires measurement and observation.

The hypotheses have all been validated, and according to the empirical results, they are quite significant. The significant empirical results explain the practices and effective findings and support this topic. This author selected the event study method to observe and gather the abnormal returns in both pre- and post-announcement periods of M&As. Moreover, the time frame was also a significant influence on results. In the future, author would select a longer sample period to better explain and improve the accuracy of the results. The author will continue to work in the institutional investment field and will be able to access more confidential information.

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<sup>14</sup> Asset management invests in public companies in their equity strategies; however, it will be an extremely small portion of its share (below 3%). This is not for a M&A purpose.

Additional years of working experience will engender more comprehensive and underlying information helping to develop theory and empirical analysis.

## Tables

**Table 4.1 Summary Statistics for the Entire Sample**

This table summarizes the primary characteristics of merger transactions in the entire sample of Chinese acquirers. The sample comprises 413 completed or uncompleted M&A transactions in the cross-border market from 1994 to 2016, in which all targets were listed companies in the Shanghai and Shenzhen Stock Exchanges. All acquirers were worldwide companies (excluding China), either public or private. The first column presents the number of transactions announced yearly from 1994 to 2016. The second column presents the total value of transactions traded by year from 1994 to 2016 in USD millions. The third column categorizes merger activities according to method of payment. Cash payment refers to transactions that were 100% financed with cash or mainly traded in cash. Non-cash payment refers to transactions that were completed with no cash. The fourth column categorizes the acquirers according to public status. Public refers to companies that are listed on the stock exchange, and non-public refers to private companies, subsidiaries, joint ventures or government-owned companies. The fifth column categorizes the acquirers according to industry. Financial refers to financial service companies such as banks, insurance companies, and fund companies. Non-financial refers to companies in any industry excluding the financial industry. The sixth column reports the results of the OLS regressions of the target's short-term performance for the entire sample year by year. The sample included all M&A cross-border transactions in which the targets were listed companies in the Chinese market from the Thomson One Banker (SDC) transactions database during 1994 to 2016. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistics.

Year	Full	Value of Transaction (\$mil.)	Method of Payment		Acquirer Public Status		Acquirer Sector		CARs			
	All Sample		Cash Payment	Non-cash Payment	Public	Non-public	Financial	Non-financial	CAR [-2, 2]		CAR [-5, 5]	
									Mean	t-value	Mean	t-value
1994	2	0.18	1	1	1	1	0	2	-0.0738	(-1.01)	-0.0426	(-1.38)
1995	5	68.49	0	5	2	3	3	2	0.0499*	(1.81)	0.0846*	(1.81)
1996	8	33.60	4	4	6	2	3	5	-0.0069	(-1.21)	-0.0037	(-1.07)
1997	14	974.74	2	12	7	7	7	7	0.0623***	(2.44)	0.0802***	(2.97)
1998	7	57.42	1	6	7	0	1	6	0.0102	(1.44)	0.0177	(1.67)
1999	9	179.02	0	9	3	6	6	3	-0.0561***	(-2.44)	-0.1136***	(-2.46)
2000	12	216.33	1	11	7	5	4	8	-0.0398**	(-2.30)	-0.0445***	(-2.64)
2001	14	292.01	1	13	7	7	4	10	-0.0207**	(-2.31)	-0.0269**	(-2.29)
2002	25	1,148.40	3	22	10	15	15	10	0.0377*	(1.75)	0.0477*	(1.77)
2003	30	686.72	4	26	12	18	17	13	0.0083*	(1.82)	0.0137**	(1.99)
2004	34	2,529.49	6	28	11	23	25	9	0.0170**	(2.11)	0.0201***	(2.38)
2005	44	10,956.00	9	35	10	34	29	15	0.0384***	(2.53)	0.0587***	(2.91)
2006	53	5,534.94	7	46	24	29	28	25	0.0710***	(2.57)	0.1011***	(2.64)
2007	31	3,724.82	4	27	8	23	21	10	0.1078*	(1.87)	0.1539**	(2.07)
2008	27	1,804.04	3	24	10	17	19	8	0.0800***	(2.57)	0.0978***	(2.51)
2009	23	4,101.15	4	19	5	18	17	6	0.0809***	(2.92)	0.0919***	(3.69)
2010	13	3,601.16	3	10	2	11	9	4	0.0892**	(2.34)	0.1385***	(2.48)
2011	8	3,618.34	1	7	0	8	6	2	0.1165**	(2.17)	0.1777**	(2.18)
2012	13	10,404.01	5	8	0	13	10	3	0.0096	(1.36)	0.0194	(1.61)
2013	8	1,573.80	2	6	1	7	6	2	0.0179	(1.61)	0.0226	(1.69)
2014	14	2,761.78	10	4	0	14	12	2	0.1044***	(2.58)	0.1176***	(3.19)



<b>2015</b>	9	902.64	4	5	1	8	7	2	0.1283*	(1.96)	0.1559**	(1.99)
<b>2016</b>	10	1,868.17	3	7	3	7	7	3	0.0147	(1.13)	0.0437	(1.28)
<b>SUM</b>	<b>413</b>	<b>57,037.25</b>	<b>78</b>	<b>335</b>	<b>137</b>	<b>276</b>	<b>256</b>	<b>157</b>				

**Table 4.2. Summary Statistics for the Acquirer and Target Sectors and Regions**

Panel A reports the number and proportion of acquirers in 12 industry sectors. Panel B reports the number and proportion of targets in 12 industry sectors. Panel C reports the number and proportion of targets in 4 regional distributions. The region of North America is a continent entirely within the Northern Hemisphere and nearly entirely within the Western Hemisphere. The region of Pan-Europe is a continent that comprises the westernmost portion of Eurasia. Europe is bordered by the Arctic Ocean to the north, the Atlantic Ocean to the west, and the Mediterranean Sea to the south and includes Russia. The region of Asia-Pacific is the portion of the world in or near the Western Pacific Ocean. It typically includes much of East Asia, South Asia, Southeast Asia, and Australasia. The region of other countries includes countries worldwide but not in North America, Pan-Europe or Asia-Pacific. For a list of the countries involved with the sample, please see Appendix 4.2.

<b>Panel A</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Acquirer Industry Sector</b>
3	0.73%	Consumer Products and Services
12	2.91%	Energy and Power
255	61.74%	Financials
8	1.94%	Government and Agencies
1	0.24%	Healthcare
18	4.36%	High Technology
36	8.72%	Industrials
29	7.02%	Materials
1	0.24%	Media and Entertainment
12	2.91%	Real Estate
4	0.97%	Retail
29	7.02%	Consumer Staples
5	1.21%	Telecommunications
<b>413</b>	<b>100.00%</b>	
<b>Panel B</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Target Industry Sector</b>
9	2.18%	Consumer Products and Services
23	5.57%	Energy and Power
83	20.10%	Financials
23	5.57%	Healthcare
41	9.93%	High Technology
77	18.64%	Industrials
64	15.50%	Materials
5	1.21%	Media and Entertainment
21	5.08%	Real Estate
10	2.42%	Retail
54	13.08%	Consumer Staples
3	0.73%	Telecommunications
<b>413</b>	<b>100.00%</b>	
<b>Panel C</b>		
<b>Number of Deals</b>	<b>Percentage%</b>	<b>Acquirer Nation</b>
59	14.29%	North America
68	16.46%	Pan Europe
171	41.40%	Asia-Pacific
115	27.85%	Others
<b>413</b>	<b>100.00%</b>	

**Table 4.3. Summary Statistics for the Entire Sample of Transactions Bid on by Financial and Non-Financial Companies**

This table presents summary statistics for the entire sample of Chinese target cross-border transactions in which all countries' acquirers were financial and non-financial companies. Panel A reports target short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports target firm characteristics. Price per share is measured as the stock price on the last trading day before the announcement of a Chinese target firm. ROE is measured as return on equity at the fiscal year end before the announcement of a Chinese target firm. ROA is measured as return on asset at the fiscal year end before the announcement of a Chinese target firm. P/E is measured as price to earnings ratio at the fiscal year end before the announcement of a Chinese target firm. EPS is measured as the earnings per share at the fiscal year end before the announcement of a Chinese target firm. BVPS is measured as the book value of equity at the fiscal year end before the announcement of a Chinese target firm. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement of a Chinese target firm. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, financial bidder transactions and non-financial bidder transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between financial bidder transactions and non-financial bidder transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

All Countries	All Deals			Financials Acquirer (F)			Non-financials Acquirer (N)			Difference (F) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	5.15%*** (3.48)	3.14%** (2.28)	413	5.18%*** (4.27)	3.44%** (2.16)	255	5.10%** (2.05)	2.86%** (1.99)	158	0.08%***	(3.17)	0.58%*	(1.83)
<b>CAR [-5, 5]</b>	6.48%*** (3.68)	3.52%*** (2.70)	413	6.51%*** (4.45)	3.68%** (2.24)	255	6.44%*** (3.00)	3.43%** (2.14)	158	0.06%***	(2.51)	0.25%*	(1.94)
<b>Panel B: Target Firm Characteristics</b>													
<b>Price Per Share</b>	1.31	0.83	413	1.22	0.86	255	1.44	0.68	158	-0.22**	(1.98)	0.19***	(2.50)
<b>ROE</b>	11.30	9.71	413	10.72	9.15	255	12.23	10.03	158	-1.51**	(2.14)	-0.87**	(-1.96)
<b>ROA</b>	2.16	1.72	413	1.34	1.02	255	3.48	3.43	158	-2.13	(1.52)	-2.41*	(-1.78)
<b>EPS</b>	0.03	0.01	413	0.03	0.01	255	0.02	0.02	158	0.01	(1.69)	-0.00	(-1.65)
<b>BVPS</b>	0.25	0.19	413	0.25	0.17	255	0.25	0.21	158	0.01*	(1.81)	-0.04	(1.53)
<b>EBITDA (\$Mil.)</b>	51.80	42.17	413	62.25	42.17	255	34.92	43.09	158	27.34**	(2.23)	-0.91	(1.58)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	518.92	507.54	413	597.99	393.38	255	391.31	328.13	158	206.68	(1.50)	65.25*	(1.95)
<b>Transaction Value (\$Mil.)</b>	114.53	64.06	413	129.45	90.00	255	90.45	41.05	158	39.00	(1.51)	48.95*	(1.86)
<b>Relative Size</b>	1.90	1.15	413	2.18	1.22	255	1.45	1.14	158	0.73*	(1.76)	0.08***	(2.41)

**Table 4.4. Summary Statistics for the North American Sample of Transactions Bid on by Financial and Non-Financial Companies**

This table presents summary statistics for the entire sample of Chinese target cross-border transactions in which North American acquirers were financial and non-financial companies. Panel A reports target short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports target firm characteristics. Price per share is measured as the stock price on the last trading day before the announcement of a Chinese target firm. ROE is measured as return on equity at the fiscal year end before the announcement of a Chinese target firm. ROA is measured as return on asset at the fiscal year end before the announcement of a Chinese target firm. P/E is measured as price to earnings ratio at the fiscal year end before the announcement of a Chinese target firm. EPS is measured as the earnings per share at the fiscal year end before the announcement of a Chinese target firm. BVPS is measured as the book value of equity at the fiscal year end before the announcement of a Chinese target firm. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement of a Chinese target firm. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, financial bidder transactions and non-financial bidder transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between financial bidder transactions and non-financial bidder transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

North America	All Deals			Financials Acquirer (F)			Non-financials Acquirer (N)			Difference (F) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	2.02%**	1.80%*	59	2.29%**	1.96%**	29	1.76%*	1.57%*	30	0.53%*	(1.79)	0.38%*	(1.89)
	(2.27)	(1.78)	59	(2.32)	(2.23)		(1.75)	(1.83)					
<b>CAR [-5, 5]</b>	2.58%***	1.93%*	59	2.88%***	2.25%***	29	2.29%*	1.73%*	30	0.59%***	(1.99)	0.52%*	(1.76)
	(2.58)	(1.89)	59	(2.61)	(2.35)		(1.95)	(1.85)					
<b>Panel B: Target Firm Characteristics</b>													
<b>Price Per Share</b>	0.94	0.99	59	1.10	1.02	29	0.80	0.97	30	0.30***	(2.38)	0.05**	(2.04)
<b>ROE</b>	13.20	9.74	59	12.48	9.97	29	13.89	8.20	30	-1.41***	(2.17)	1.77	(1.63)
<b>ROA</b>	4.06	2.37	59	3.31	2.37	29	4.79	3.20	30	-1.48	(1.69)	-0.83*	(1.90)
<b>EPS</b>	0.04	0.02	59	0.05	0.02	29	0.03	0.02	30	0.02*	(1.92)	0.00*	(1.75)
<b>BVPS</b>	0.28	0.21	59	0.32	0.17	29	0.25	0.23	30	0.07*	(1.86)	-0.07*	(1.79)
<b>EBITDA (\$Mil.)</b>	71.80	51.89	59	102.89	76.20	29	41.74	34.05	30	61.15**	(2.19)	42.15	(1.67)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	872.95	770.61	59	1,326.36	1,030.06	29	434.65	343.37	30	891.72*	(1.92)	686.69*	(1.83)
<b>Transaction Value (\$Mil.)</b>	215.98	81.21	59	330.88	91.36	29	104.90	40.00	30	225.98*	(1.86)	51.36*	(1.84)
<b>Relative Size</b>	2.88	1.30	59	2.78	1.52	29	2.97	1.24	30	-0.19*	(1.91)	0.28***	(2.41)

**Table 4.5. Summary Statistics for the Pan-European Sample of Transactions Bid on by Financial and Non-Financial Companies**

This table presents summary statistics for the entire sample of Chinese target cross-border transactions in which Pan-European acquirers were financial and non-financial companies. Panel A reports target short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports target firm characteristics. Price per share is measured as the stock price on the last trading day before the announcement of a Chinese target firm. ROE is measured as return on equity at the fiscal year end before the announcement of a Chinese target firm. ROA is measured as return on asset at the fiscal year end before the announcement of a Chinese target firm. P/E is measured as price to earnings ratio at the fiscal year end before the announcement of a Chinese target firm. EPS is measured as the earnings per share at the fiscal year end before the announcement of a Chinese target firm. BVPS is measured as the book value of equity at the fiscal year end before the announcement of a Chinese target firm. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement of a Chinese target firm. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, financial bidder transactions and non-financial bidder transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between financial bidder transactions and non-financial bidder transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.



Pan Europe	All Deals			Financials Acquirer (F)			Non-financials Acquirer (N)			Difference (F) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	4.68%*** (3.15)	3.28%*** (2.58)	68	3.57%*** (2.44)	3.17%*** (2.35)	27	5.41%*** (3.42)	3.33%*** (2.76)	41	-1.84%**	(2.23)	-0.16%*	(1.75)
<b>CAR [-5, 5]</b>	6.25%*** (3.82)	4.29%*** (3.07)	68	4.99%*** (2.85)	4.15%*** (2.78)	27	7.08%*** (4.50)	4.69%*** (3.15)	41	-2.09%**	(2.29)	-0.54%*	(1.79)
<b>Panel B: Target Firm Characteristics</b>													
<b>Price Per Share</b>	1.88	1.27	68	1.75	1.77	27	1.96	0.90	41	-0.21*	(1.81)	0.87	(1.61)
<b>ROE</b>	13.46	10.82	68	16.02	13.28	27	11.77	8.96	41	4.25*	(1.96)	4.32*	(1.90)
<b>ROA</b>	2.93	1.20	68	1.75	0.66	27	3.71	3.44	41	-1.96	(1.66)	-2.78*	(1.89)
<b>EPS</b>	0.04	0.02	68	0.04	0.02	27	0.04	0.02	41	0.00*	(1.94)	0.00*	(1.92)
<b>BVPS</b>	0.31	0.23	68	0.30	0.28	27	0.32	0.22	41	-0.02*	(1.81)	0.06	(1.57)
<b>EBITDA (\$Mil.)</b>	74.83	65.81	68	71.71	66.79	27	76.88	52.75	41	-5.18**	(2.09)	14.04**	(2.02)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	824.64	677.71	68	842.46	601.00	27	812.90	505.02	41	29.57**	(2.05)	95.98**	(2.04)
<b>Transaction Value (\$Mil.)</b>	170.92	82.06	68	238.20	122.84	27	126.61	63.51	41	111.59**	(2.01)	59.34*	(1.98)
<b>Relative Size</b>	1.50	1.23	68	1.53	1.15	27	1.48	1.48	41	0.05**	(1.98)	-0.33***	(2.41)

**Table 4.6. Summary Statistics for the Asia-Pacific Sample of Transactions Bid on by Financial and Non-Financial Companies**

This table presents summary statistics for the entire sample of Chinese target cross-border transactions in which Asia-Pacific acquirers were financial and non-financial companies. Panel A reports target short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports target firm characteristics. Price per share is measured as the stock price on the last trading day before the announcement of a Chinese target firm. ROE is measured as return on equity at the fiscal year end before the announcement of a Chinese target firm. ROA is measured as return on asset at the fiscal year end before the announcement of a Chinese target firm. P/E is measured as price to earnings ratio at the fiscal year end before the announcement of a Chinese target firm. EPS is measured as the earnings per share at the fiscal year end before the announcement of a Chinese target firm. BVPS is measured as the book value of equity at the fiscal year end before the announcement of a Chinese target firm. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement of a Chinese target firm. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, financial bidder transactions and non-financial bidder transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the differences between financial bidder transactions and non-financial bidder transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

Asia-Pacific	All Deals			Financials Acquirer (F)			Non-financials Acquirer (N)			Difference (F) - (N)			
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	t-Value	Median	t-Value
<b>Panel A: Abnormal Returns</b>													
<b>CAR [-2, 2]</b>	6.33%*** (3.41)	2.44%* (1.79)	171	6.55%*** (3.52)	2.60%* (1.89)	84	6.11%*** (2.69)	1.81%** (2.02)	87	0.45%* (1.90)		0.80%* (1.83)	
<b>CAR [-5, 5]</b>	8.18%*** (4.25)	2.44%* (1.80)	171	8.81%*** (3.88)	2.64%* (1.95)	84	7.57%*** (4.28)	1.88%** (2.04)	87	1.24%* (1.91)		0.76%* (1.84)	
<b>Panel B: Target Firm Characteristics</b>													
<b>Price Per Share</b>	1.52	0.61	171	1.63	0.61	84	1.43	0.60	87	0.20**	(2.17)	0.01*	(1.81)
<b>ROE</b>	12.13	10.63	171	12.39	11.07	84	11.88	10.22	87	0.50**	(2.27)	0.85***	(2.56)
<b>ROA</b>	2.31	2.86	171	1.68	1.58	84	2.91	3.53	87	-1.23*	(1.97)	-1.95*	(1.93)
<b>EPS</b>	0.02	0.01	171	0.03	0.01	84	0.01	0.01	87	0.02*	(1.77)	0.00*	(1.83)
<b>BVPS</b>	0.25	0.18	171	0.29	0.17	84	0.21	0.21	87	0.07	(1.62)	-0.04*	(1.78)
<b>EBITDA (\$Mil.)</b>	32.84	23.52	171	53.60	46.75	84	12.79	8.90	87	40.82*	(1.81)	37.86*	(1.89)
<b>Panel C: Deal Characteristics</b>													
<b>Market Value (\$Mil.)</b>	224.83	126.48	171	273.64	143.34	84	177.69	118.73	87	95.95	(1.58)	24.61*	(1.85)
<b>Transaction Value (\$Mil.)</b>	89.10	42.01	171	110.51	55.47	84	68.43	36.29	87	42.08	(1.66)	19.19*	(1.76)
<b>Relative Size</b>	1.44	1.09	171	1.99	1.41	84	0.91	0.85	87	1.08**	(2.17)	0.56***	(2.41)

**Table 4.7. Summary Statistics for the Other Countries Sample of Transactions Bid on by Financial and Non-Financial Companies**

This table presents summary statistics for the entire sample of Chinese target cross-border transactions in which other countries' acquirers were non-financial companies (there is no financial acquirer from other countries). Panel A reports target short-term abnormal returns. CAR [-2, 2] is the 5-day market-adjusted cumulative abnormal returns surrounding the announcement. CAR [-5, 5] is the 11-day market-adjusted cumulative abnormal returns surrounding the announcement. Panel B reports target firm characteristics. Price per share is measured as the stock price on the last trading day before the announcement of a Chinese target firm. ROE is measured as return on equity at the fiscal year end before the announcement of a Chinese target firm. ROA is measured as return on asset at the fiscal year end before the announcement of a Chinese target firm. P/E is measured as price to earnings ratio at the fiscal year end before the announcement of a Chinese target firm. EPS is measured as the earnings per share at the fiscal year end before the announcement of a Chinese target firm. BVPS is measured as the book value of equity at the fiscal year end before the announcement of a Chinese target firm. EBIDA is measured as earnings before interest, taxes, depreciation and amortization at the fiscal year end before the announcement of a Chinese target firm. Panel C reports transaction characteristics. Market value is market value of equity measured the last trading day before the announcement. Transaction Value is the value of the transaction. Relative Size is measured as the transaction value divided by the acquirer market value of equity the last trading day before the announcement. The t-values are indicated in all sample, non-financial bidder transactions for the mean and median, CAR [-2, 2] and CAR [-5, 5], respectively. The t-test indicates the all sample and non-financial bidder transactions in means and medians, respectively. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

Other Countries	All Deals			Financials Acquirer		
	Mean	Median	N	Mean	Median	N
<b>Panel A: Abnormal Returns</b>						
<b>CAR [-2, 2]</b>	5.28%*** (3.47)	2.28%*** (2.42)	115	5.28%*** (3.47)	2.28%*** (2.42)	115
<b>CAR [-5, 5]</b>	6.09%*** (3.85)	3.80%*** (2.80)	115	6.09%*** (3.85)	3.80%*** (2.80)	115
<b>Panel B: Target Firm Characteristics</b>						
<b>Price Per Share</b>	0.84	0.51	115	0.84	0.51	115
<b>ROE</b>	7.82	5.60	115	7.82	5.60	115
<b>ROA</b>	0.50	0.58	115	0.50	0.58	115
<b>EPS</b>	0.02	0.00	115	0.02	0.00	115
<b>BVPS</b>	0.21	0.16	115	0.21	0.16	115
<b>EBITDA (\$Mil.)</b>	56.11	15.34	115	56.11	15.34	115
<b>Panel C: Deal Characteristics</b>						
<b>Market Value (\$Mil.)</b>	593.83	453.56	115	593.83	453.56	115
<b>Transaction Value (\$Mil.)</b>	66.96	72.61	115	66.96	72.61	115
<b>Relative Size</b>	2.33	0.72	115	2.33	0.72	115

**Table 4.8 OLS Regressions of Acquirer Short-Term Performance**

This table presents the results of OLS regressions of the target short-term performance for the entire sample. In these models, this chapter regresses acquirer CAR [-2, 2] and CAR [-5, 5] against a number of explanatory variables. The key explanatory variable is Acfin. Acfin dummy equals 1 if the acquirer company is classified as a sector of financials by Thomson One Banker. For transaction characteristics, other control variables included method of payment (cash), public status (public), diversification and cross-border nations (nation). The cash dummy variable equals 1 if the transaction is fully financed with cash; the dummy variable equals 0 if the transaction is not fully financed with cash. The public dummy variable equals 1 if the acquirer is a publicly listed firm; the dummy variable equals 0 if the acquirer is not a publicly listed firm. For transaction characteristics, other control variables include diversification and nation. The diversification variable equals 1 if the acquirer and target were classified as being in the same industry; the dummy variable equals 0 if the acquirer and target are not classified as being in the same industry. The nation variable equals 1 if the target is from a developed market; the dummy variable equals 0 if the target is from an emerging market. For firm characteristics, other control variables include the proportion of top 10 shareholders and the proportion of largest shareholder. Leverage is measured as total debt over total capital at fiscal year-end before the announcement. ROE is measured as return on equity at t fiscal year end before the announcement. P/E is measured as price to earnings ratio at fiscal year-end before the announcement. LnSize is the natural logarithm of the market value of equity measured at fiscal year-end before the announcement. LnAsset is the natural logarithm of total assets measured at fiscal year-end before the announcement. LnSales is the natural logarithm of total sales measured at fiscal year-end before the announcement. For industry sector characteristics, other control variables included 12 different industries. Industry1 dummy equals 1 if the bidding firm was classified in the sector of Financials. Industry2 dummy equals 1 if the bidding firm was classified in the sector of Consumer Products and Services. Industry3 dummy equals 1 if the bidding firm was classified in the sector of Consumer Staples. Industry4 dummy equals 1 if the bidding firm was classified in the sector of Energy and Power. Industry5 dummy equals 1 if the bidding firm was classified in the sector of Healthcare. Industry6 dummy equals 1 if the bidding firm was classified in the sector of High Technology. Industry7 dummy equals 1 if the bidding firm was classified in the sector of Industrials. Industry8 dummy equals 1 if the bidding firm was classified in the sector of Materials. Industry9 dummy equals 1 if the bidding firm was classified as the sector of Media and Entertainment. Industry10 dummy equals 1 if the bidding firm was classified in the sector of Real Estate. Industry11 dummy equals 1 if the bidding firm was classified in the sector of Retail. Industry12 dummy equals 1 if the bidding firm was classified in the sector of Telecommunications. \*\*\*, \*\*, \* represent the significance of average return different from zero, at 1%, 5% and 10% levels, respectively, based on one-tail t statistic.

	CAR [-2, 2]	CAR [-5, 5]
<b>Acfin</b>	0.2158** (1.98)	0.2700*** (2.36)
<b>Cash</b>	0.2324**	0.2335***

	(2.32)	(2.41)
<b>Public</b>	0.1219	0.1386
	(1.15)	(1.27)
<b>Diversification</b>	0.2142**	0.2511**
	(2.05)	(2.20)
<b>Nation</b>	0.2496***	0.2667***
	(2.43)	(2.62)
<b>Top 10</b>	0.2268**	0.2375***
	(2.30)	(2.38)
<b>Top 1</b>	0.1587	0.1681
	(1.52)	(1.59)
<b>Leverage</b>	0.1270	0.1356
	(1.25)	(1.30)
<b>ROE</b>	-0.2001**	-0.3678***
	(-2.29)	(-2.78)
<b>PE</b>	0.1251	0.1274
	(1.09)	(1.13)
<b>LnSize</b>	-0.1243	-0.1852
	(-1.21)	(-1.54)
<b>LnAsset</b>	0.1838	0.1866
	(1.68)	(1.73)
<b>LnSales</b>	0.1869	0.1896*
	(1.74)	(1.76)
<b>Industry1</b>	0.1974*	0.2592**
	(2.03)	(2.34)
<b>Industry2</b>	0.1088	0.1464
	(1.02)	(1.22)
<b>Industry3</b>	0.2850***	0.3432***
	(2.41)	(2.55)
<b>Industry4</b>	0.1576	0.1899
	(1.57)	(1.67)
<b>Industry5</b>	0.1329	0.1682
	(1.45)	(1.52)
<b>Industry6</b>	0.2451***	0.2563***
	(2.39)	(2.44)
<b>Industry7</b>	0.1576	0.1745
	(1.45)	(1.67)
<b>Industry8</b>	0.1862	0.1869
	(1.69)	(1.71)
<b>Industry9</b>	0.1402	0.1583
	(1.32)	(1.41)
<b>Industry10</b>	0.2457**	0.2783**
	(2.18)	(2.33)

<b>Industry11</b>	0.0687 (1.04)	0.0820 (1.16)
<b>Industry12</b>	0.2210*** (2.34)	0.3719*** (2.68)
<b>Constant</b>	0.1271 (1.46)	0.1505 (1.63)
<b>N</b>	413	413
<b>R Square</b>	0.189	0.218
<b>Adjusted R Square</b>	0.159	0.178



## Appendices

### Appendix 4.1. Definition of Control Variables

The table below defines control variables in the regressions of the chapter. The definition of each variable is presented in the table. Panels A, B and C present transaction characteristics, company characteristics and industry sectors, respectively.

Variable	Definition
<b>Panel B: Transaction Characteristics</b>	
<b>Acfin</b>	Dummy variable equals 1 if the Acquirer is classified by Financials; dummy variable equals 0 if the acquirert is not a financial firm.
<b>Cash</b>	Dummy variable equals 1 if the deal is fully paid by cash; dummy variable equals 0 if the deal is not fully paid by cash.
<b>Public</b>	Dummy variable equals 1 if the target is a publicly listed firm; dummy variable equals 0 if the target is not a publicly listed firm.
<b>Diversification</b>	Dummy variable equals 1 if the acquirer and target are classified as the same industry; dummy variable equals 0 if the acquirer and target are not classified as the same industry.
<b>Nation</b>	Dummy variable equals 1 if the target is from developed market; dummy variable equals 0 if the target is from emerging market.
<b>Panel A: Company Characteristics</b>	
<b>Top 10</b>	The proportion of top 10 shareholders.
<b>Top 1</b>	The proportion of largest shareholder.
<b>Leverage</b>	Total debt over total capital.
<b>ROE</b>	Return on equity.
<b>PE</b>	Price to Earnings
<b>Lnsize</b>	The logarithm of the acquirer market value at the fiscal year end before the announcement.
<b>Lnasset</b>	The logarithm of the acquirer total asset at the fiscal year end before the announcement.

<b>Lnsales</b>	The logarithm of the acquirer sales revenue at the fiscal year end before the announcement.
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**Panel C: Industry Sector**

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<b>Industry 1</b>	The target is classified by Financials (FINANCE).
<b>Industry 2</b>	The target is classified by Consumer Products and Services (CPS).
<b>Industry 3</b>	The target is classified by Consumer Staples (STAPLES).
<b>Industry 4</b>	The target is classified by Energy and Power (ENERGY).
<b>Industry 5</b>	The target is classified by Healthcare (HEALTH).
<b>Industry 6</b>	The target is classified by High Technology (HT).
<b>Industry 7</b>	The target is classified by Industrials (IND).
<b>Industry 8</b>	The target is classified by Materials (MATERLS).
<b>Industry 9</b>	The target is classified by Media and Entertainment (MEDIA).
<b>Industry 10</b>	The target is classified by Real Estate (REALEST).
<b>Industry 11</b>	The target is classified by Retail (RETAIL).
<b>Industry 12</b>	The target is classified by Telecommunications (TELECOM).

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## Appendix 4.2. Definition of Regions of Entire Sample

The region of North America is a continent entirely within the Northern Hemisphere and nearly completely within the Western Hemisphere. The Region of Pan-Europe is a continent that comprises the westernmost portion of Eurasia. Europe is bordered by the Arctic Ocean to the north, the Atlantic Ocean to the west, and the Mediterranean Sea to the south and includes Russia. The region of Asia-Pacific is the portion of the world in or near the Western Pacific Ocean. It typically includes much of East Asia, South Asia, Southeast Asia, and Australasia. The region of other countries is countries worldwide but not in North America, Pan-Europe and Asia-Pacific. The group of countries is the sample of transactions where the target firms is located.

Acquirer Nation	Group of Countries
North America	British Virgin, Bermuda, United States
Pan Europe	Austria, Bulgaria, France, Germany, Greece, Italy, Luxembourg, Netherlands, Spain, Switzerland, United Kingdom
Asia-Pacific	Hong Kong, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam
Others	Argentina, Brazil, Chile, Kuwait, Mauritius, Peru, Philippines, Qatar, Saudi Arabia, South Africa,

## **5. Chapter V: Conclusion**

### **5.1 Summary**

To summarize, this dissertation reviewed existing literature and identified some empirical evidence in cross-border M&As of listed China's enterprises. Chapter 2 demonstrated that transactions financed with cash outperformed transactions financed with stock although more Chinese public companies chose stock to finance transactions. Chapter 3 demonstrated that the acquirer of a public overseas target underperformed compared with companies pursuing private targets. The transaction volume indicated that most bidder companies made the right decision. Chapter 4 demonstrated that overseas financial institutions were more likely (over 60% of transactions) to acquire Chinese public companies in all industries. These investors brought abnormal returns to their target companies.

Chinese public companies realized more return when transactions were financed with cash. Previous studies indicated that the M&As transactions did generate more return for bidder firms when the transactions were financed with stock. This dissertation identified little evidence of the opposite result. The majority of research has been completed for over a decade. The Chinese cross-border M&As market became more active after 2007. Therefore, this thesis may be essential to updating the empirical research and evidence to investigate current validity. This study is more specific to the

Chinese M&As market, which is the most active emerging market globally. This dissertation explored the empirical evidence to examine principles and theories. Because of the different investor structure in China, over 90% of investors were individuals, which caused more volatility. The results indicated that cross-border transactions financed with cash brought a higher premium to the Chinese bidder company because stock market investors strongly believe that the bidder company has good cash flow. Executive management and financial status expect a strong performance. The Chinese government encourages local companies to go abroad to access techniques and resources. For the regional analysis, only the U.S. market created a negative return for the Chinese buyer; Europe and other countries rewarded positive high returns. Asia-Pacific contributed the most transactions although the returns for transactions financed with cash or stock were not remarkable.

Previous studies indicated that the M&As transactions did generate more return for bidder firms when acquiring private firms. This dissertation identified little evidence that is consistent with other research. The Chinese cross-border M&As market became more active after 2007. This thesis completes and updates the research in this field. Therefore, this thesis may be essential in updating the empirical research and evidence to investigate current validity. This study is more specific to the Chinese M&As market, which is the most active emerging market globally. This dissertation explored the empirical evidence to examine principles and theories. The investor structure is different in China; over 90% of investors are individuals, which causes

more volatility. The results may be different from U.S. and European or other developed markets. The results indicated that cross-border transactions traded with private firms brought higher premiums to their Chinese bidder companies because the stock prices of public targets may respond to the announcement quite quickly. Buyers normally tend to pay a higher premium. Private targets have no such issue in the transaction. The Chinese government encourages local companies to go abroad to access techniques and resources. For the regional analysis, only the European market created a lower return when acquiring a private target; the returns in the U.S. market were also negative, which is same comparing with the findings in Chapter 2. And the transactions in other countries contributed the highest return, and the returns for the buyer who acquired a public target were significantly negative.

Financial institutional investors created more value for Chinese public target companies. Previous studies indicated that the M&As transactions did generate more return for target firms when the bidder belonged to the financial industry. The essential goal was updating the empirical research and evidence to investigate current validity. This research is more specific to the Chinese M&As market, which is the most active emerging market globally. This dissertation explored the empirical evidence to examine principles and theories. Moreover, the assumptions focused on the differences between the financial industry and other industries and whether M&As transactions can create more value for the shareholders of target firms. Its result may demonstrate that the financial industrial bidder brings a higher premium to the

Chinese target company because stock market investors strongly believe the target company is a good business. Better management and financial status are expected. The Chinese government also encourages foreign capital and investments to support local economies. In the regional studies, only European financial institutional investors created less return than the average returns of other industries; the returns remain positive and high. The transactions within Asia-Pacific contributed the highest return to the shareholders of target firms.

In November 2016, China originally presented new regulation to control irrational outbound investments among accelerated capital outflows. As such measures took influence and the RMB steadied in 2017, the Chinese government officially issued the guideline for outbound investments in August 2017. These guidelines evidently clear encouraged, restricted and prohibited outbound investments and established the Chinese government's supports for investment that could support enhance the national long-term growth potentials and economic benefits, while restricted irrational investments. In December 2017, China NDRC (national development and reform commission) additionally simplified the regulation process for outbound investment, with the most distinguished adjustment being the elimination of the NDRC pre-clearance condition. Robust craving for transaction that drop under the encouraged category, chiefly those in infrastructures, energy and power and utilities sectors to encourage the One Belt One Road initiative. While not precisely stated in the encouraged list, the government encourages outbound investment related to food

safeties, healthcare and pharmaceuticals and business with strong brand recognitions and the complementary international presence.

## **5.2 Implications**

This thesis has implications for both research and practice. First, this thesis covered half of the cross-border transactions in China and all public companies involved in transactions, completed or not. The time period covered all transactions since the Chinese stock exchange was established. This thesis utilized a unique data set in Chinese public companies' cross-border M&As. The cross-border transactions were rather limited and had a shorter history.

The Chinese government's opening-up policy offered opportunities to this type of business activity. The Ministry of Commerce of the People's Republic of China monitors all overseas direct investment, including cross-border M&As. The author expects this research to help Chinese bidder companies select better targets. The regional research in this thesis may help Chinese regulators develop better guidelines to approve investable projects and stop losses in a risky market. This thesis grouped markets as North America, Pan-Europe, Asia-Pacific and the rest of the world, and included 12 major industries. Future research on regional and industrial factors may be based on this thesis. Chinese companies have been in the M&As market for an extremely short time. Successful transactions are limited, and many transactions were



uncompleted. However, Chinese companies are fast learners; the teams are more professional than they were 10 years ago; have a better understanding of the market, culture, management, laws and taxes; and have begun helping transactions to completion. In the past two years, there were several remarkable transactions in Germany and Japan. This thesis provides better academic support for those activities. The results may also provide a guide to investors and future studies.

The literature on method of payment is scant, and there have been few updates in recent years. Business activities may have to be changed because of a different investor structure, fiscal and monetary economic policies, culture, market size, etc. Therefore, it is necessary to update this special market. The majority of Chinese buyers finance their transactions with stock payments; however, the results indicated that those transactions underperformed compared with cash transactions. This thesis chose Chinese public companies as a starting point to evaluate their cross-border performance. The majority of bidder companies in China acquired overseas private firms as the previous literature suggested. This is a good situation for Chinese investors. This thesis attempted to specifically explain the regional differences in North America, Pan-Europe, Asia-Pacific and rest of the world; and other factors may affect performance in the short time period. This thesis could assist investors in choosing targets and creating a better return for their shareholders.

The literature on financial institutional investors is also quite limited. In this thesis,

the author concluded that over 60% of transactions are conducted by overseas financial investors. Because of the ownership structures of these bidders, only very limited information may be obtained from bidder prospects. The author chose to begin with Chinese public targets. This is a unique perspective for cross-border M&A research. Because there are regional and industrial studies in this thesis, it may also provide advice to overseas investors when they consider acquiring a Chinese target. The thesis has introduced China's M&As market environment, regulations and data statistics of historical transactions. The Chinese opening-up policies sought to attract offshore corporations to invest in China; however, investigation remains difficult. Better understanding of China's market and policies is helping transaction completion. This also encourages the shareholders of Chinese companies to identify overseas buyers and financial investors. To become an overseas buyer's target is a sort of reward for its business and operations. Of course, hostile takeovers are not welcome although financial or strategic investors should be encouraged by Chinese companies. To optimize the ownership structure and improve management or financial support benefits shareholders. This thesis attempted to provide academic support in this field.

### **5.3 Limitations**

There is blank space in this dissertation that the author will pursue in the future. This thesis selected Chinese public companies as the observation objects. The information and data were more accessible, and there were a clear trend and stock price volatility.

This dissertation only tested CAR for 2 and 5 days before and after the M&As announcement date. The long-term performance was not considered because of the volatility of the stock market in China. In recent decades, China experienced rapid development and economic reform, and the market environment and regulations changed frequently. There would be too much noise to test long-term performance. Government guidelines for industrial development in particular may have major effects on performance. There has been little research on method of payment in M&As transactions, and the details of the transactions tend to be confidential. It may be difficult for data collection to reflect all relevant factors. This is why this dissertation focused on listed companies. Although over 60% of transactions were financed with stock, this dissertation attempted to demonstrate that cash may be a better option to complete the transaction. Nevertheless, access to information and data collection remain difficult; thus, observation in this area is incomplete. In the Chinese cross-border M&As market, over half of transactions were traded by private companies.

This is why this dissertation focused on listed companies. In fact, over 80% of transactions occurred with private companies, and acquiring a public target may render it difficult to complete the transaction. The author attempted to find Chinese evidence in this field to prove the theory. Nevertheless, access to information and data collection remain difficult, causing observation in this area to be less than complete.

In the Chinese cross-border M&A market, the majority of transactions were traded by

private companies. Their investor information is confidential. Therefore, this dissertation covers less than 50% of transactions in China's cross-border M&As market. The results do not explain all situations and factors in this field. When private financial institutional investors seek investment opportunities, particularly buyout private equity funds, the investor information is confidential. It is quite difficult to access that information. And some of financial investors have no management effects on their acquisition targets. More underlying research may be required in the future. This dissertation attempted to fill a small gap in this area. Nevertheless, limited access to information and data collection renders it difficult to experience a complete observation in this area. In the cross-border M&As market, asset management managers and private funds are main players. They normally do not go public, which means there is no public information access. Their investor information is also confidential. Therefore, the only solution is to identify what they invest in, and they basically prefer to invest in private companies rather than public companies. Therefore, little information is available from public target companies. Moreover, long-term validity requires measurement and observation.

#### **5.4 Future Research**

M&As activities are also extremely active in the private market. In fact, this dissertation is more applicable when public companies acquire private targets. In Chapter 4, most transactions of overseas bidder firms were conducted with private

companies. Therefore, this thesis covered only approximately 50% of transactions, and the data and information disclosure in the Chinese stock market were insufficient. If there is more information obtainable, studies will be able to test more factors. This thesis conducted only short-term performance analysis. Long-term performance analysis may also be conducted although there are many factors and circumstances that are not measurable. This test followed Lyon et al. (1999) to examine the BHARs (buy-and-hold abnormal returns) and to measure the 2-year long-term performance of acquisitions. BHARs may be calculated for a sample for more than 2 years after the transaction is completed. However, the author would be attempting to solve the data access issue on private transactions. Public and private transactions combined will demonstrate the results more accurately.

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